AUDIT OF THE COMPETITIVE SERVICE OFFERINGS OF

ELIZABETHTOWN GAS COMPANY
Docket #GA02020099

SUBMITTED TO THE

NEW JERSEY BOARD OF PUBLIC UTILITIES
DIVISION OF AUDITS

SUBMITTED BY

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I. Introduction

This report describes the results of an audit of Elizabethtown Gas Company's (ETG's) compliance with New Jersey Board of Public Utilities (BPU) rules, regulations and orders related to competitive services. The audit was conducted in the context of BPU dockets AA02020094 (generic) and GA02020099 (ETG). The BPU rules and regulations are codified in New Jersey Administrative Code Section 14:4, Subchapter 5 - Affiliate Relationships, Fair Competition and Accounting Standards and Related Reporting Requirements (Affiliate Standards). The Affiliate Standards formed the basis for audit compliance testing. This chapter describes the conduct of the audit, restates scope and objectives, summarizes findings and documents recommendations.

II. Audit History, Scope and Objectives

This audit was conducted pursuant to a Request for Proposal issued by the BPU on March 20, 2002. Overland was selected to perform the audit and signed a contract in July, 2002. We issued our first data request to ETG on July 18, 2002. Our primary BPU contacts during the audit were Thomas Langbein, Bureau Chief, Management Audits, Clement Mascolo, Bureau of Management Audits, Dante Cusi, Bureau of Financial Audits and Robert Wojciak, Bureau of Financial Audits. Messrs. Mascolo, Cusi and Wojciak participated in the field work phase of the audit, including most audit interviews. Our primary Company contact during the audit was Amey Mesko, Manager, Regulatory Affairs.

We conducted audit field work at NUI Corporation's (ETG's parent) headquarters in Bedminster, New Jersey and at ETG's headquarters in Union, New Jersey from September 9, 2002 through November 22, 2002. In total, we conducted interviews of 28 NUI Corporation, NUI subsidiary and ETG employees covering a range of topics relating to affiliate transactions and compliance with BPU Affiliate Standards. A list of interviews is shown in Appendix 1. We conducted audit analysis from August, 2002 through January, 2003. In total we issued 148 formal requests for data and information. A data request and response log for the audit is shown in Appendix 2. We submitted our draft audit report to the BPU on January 31, 2003.

The audit's scope, in accordance with the Request for Proposals, included a review of competitive services offerings and affiliate relationships and transactions. Audit objectives included a determination of the following:

- Whether there is strict separation or allocation of utility revenues, costs, assets, risks and functions from those of its competitive service segments.
- Whether the degree of separation is reasonable under the BPU's Affiliate Standards.
- Whether there is cross-subsidization between the utility and competitive service segments.
- The impact on ratepayers of using utility assets to provide competitive services.
- The impact of competitive services on utility workers.

- The impact of utility practices on the market for competitive services.

- Whether recommendations from the previous audit have been fully implemented.

The period reviewed in this audit included NUI Corporation's (NUI's) fiscal years 2001 and 2002 (October 1, 2000 through September 30, 2002). In some cases, the report refers to or includes statistical information from fiscal year 2000 in cases in which it served as a reference point for the audit period.

III. Audit Report Contents

The audit report is organized in accordance with NUI's corporate structure and ETG's affiliate relationships with its ultimate parent, NUI and other NUI subsidiaries. NUI's operations, services and transactions are conducted primarily by the following subsidiaries:

- NUI Headquarters (NUIHQ) - NUIHQ is a business unit established for cost accounting purposes to contain corporate administrative functions charged to all NUI operating subsidiaries (Chapter 3).

- NUI Utilities - NUI Utilities is a subsidiary of NUI Corporation that owns ETG, City Gas Florida and a smaller utility in Maryland. During the audit period it also owned small gas distribution utilities in Pennsylvania and North Carolina.

- NUI Appliance Services (ASB) - The ASBs are legally divisions of the utilities in the areas they operate (Florida and New Jersey). They are treated as separate subsidiaries for accounting and affiliate transactions purposes (Chapter 4).

- NUI Energy Brokers (Energy Brokers) and Virginia Gas - These two energy affiliates operate in wholesale markets. Energy Brokers sells gas and offers asset management services in interstate markets. Virginia Gas is developing a storage hub to serve the Mid-Atlantic region (Chapter 5).

- NUI Energy (Energy) - Energy is a retail gas marketing subsidiary selling the gas commodity primarily to commercial and industrial customers in several states, including New Jersey (Chapter 5).

- NUI Utility Business Services (UBS) - UBS is a utility billing and applications service company. It provides billing and remittance processing to NUI Utilities and, in addition to these services, licenses a proprietary customer information system to water utilities. It also sells geographic information services and applications to NUI Utilities and other utilities (Chapter 6).

- NUI Telecom (Telecom) - Telecom is a telecommunications reseller that provides retail local, long distance and wireless telephone services to NUI and others. (Chapter 7).

IV. Summary Audit Findings and Conclusions

The following discussion addresses the audit objectives stated in the Request for Proposals. A summary of all audit findings by topic is included at the beginning of each report chapter.

A. Applicability of Affiliate Standards to ETG Affiliates and Non-regulated Business Units.

NUI differentiates between affiliates it believes are or are not subject to the BPU's Affiliate Standards. Affiliates that NUI believes are subject to the Standards are called "affected affiliates" in the Company's written affiliate procedures and Compliance Plan. "Affected affiliates" include:

- NUI Appliance Services, a competitive service segment of ETG discussed in Chapter 4.
- NUI Energy , a competitive service segment of NUI discussed in Chapter 5.
- NUI Telecom, a competitive service segment of NUI discussed in Chapter 7.

Key affiliates that NUI does not consider to be affected by Affiliate Standards include:

- NUI Energy Brokers and Virginia Gas, both of which serve wholesale energy markets, discussed in Chapter 5.
- Utility Business Services, an affiliate that provides billing, remittance processing and other operational support services to utilities, including NUI utilities, discussed in Chapter 6.

NUI's Affiliate Standards Compliance Plan contains 46 policy statements, most of which address the relationships and transactions between ETG and affiliates. The applicability of nearly all of the policy statements is limited to "affected affiliates"; that is, to NUI Appliance Services, NUI Energy and NUI Telecom. In 2002, NUI requested that the BPU waive Affiliate Standards separation, information disclosure and non-discrimination requirements for NUI Telecom. To the extent we can determine, if granted, the waiver would render most of the 46 Compliance Plan policies moot with respect to NUI Telecom.

The audit considered the relationships and transactions between ETG and all of its affiliates. Although the audit included analysis of all affiliates with which ETG had a significant relationship or transactions, it was not within the audit's scope to determine whether affiliates should be classified as "competitive service segments," or "retail affiliates" subject to Affiliate Standards. It should be noted that relationships and transactions with affiliates can affect ETG and its ratepayers regardless of whether the affiliate is considered to be subject to the Affiliate Standards.

B. Adequacy of Accounting Separation Between ETG and Affiliate Revenues, Costs and Assets

1. Accounting Separation Between ETG and Affiliates - In general, NUI maintained effective financial and management accounting separation between ETG and the direct operations non-utility affiliates and business units[1] (Chapters 3 through 7).

2. Accounting Separation Between ETG and NUI - NUI maintained management and financial accounting separation for ETG and for the NUI corporate departments ETG shared with affiliates. Separation was adequate in most respects (Chapter 3).

3. Corporate Cost Allocations - NUI did not maintain adequate procedures to ensure the proper allocation of *corporate* costs between ETG and affiliates. NUI did not use timesheets to identify and assign corporate efforts directly to benefiting affiliates. NUI did not use an attributable cost methodology to allocate the common costs of shared corporate functions between regulated and non-regulated subsidiaries. NUI's management accounting procedures were not sufficient to ensure that all common costs were identified and allocated (Chapters 2 and 3).

4. Shared Utility Cost Allocations - Procedures to allocate the costs of shared *utility* functions between utility and appliance service operations have improved since the last audit primarily as a result of NUI's decision to use a more attributable basis for the allocations. However, additional improvements need to be made (Chapters 3 and 4).

5. Internal Control - Internal accounting controls governing inter-company transactions were insufficient in several respects. Professional services provided by UBS to ETG were not tracked on timesheets or otherwise documented to support for the services provided. As a result, we could not evaluate these services to assess their reasonableness. Most transactions between ETG and affiliates were not itemized in periodic inter-company billings. Inter-company transaction control accounts (inter-company accounts payable and receivable accounts) were not regularly paid or settled, allowing amounts owed to grow over periods of several years. Inter-company accounting and allocation procedures were not fully documented. Support for some inter-company transactions was inadequate or non-existent (Chapter 2).

6. Transactions Between ETG and Energy Brokers - There were significant transactions between ETG and its wholesale energy affiliate, NUI Energy Brokers, that, due to time constraints, we were unable to effectively audit (Chapter 5).

[1] Separate financial accounting means separate general ledgers (or sub-ledgers) and financial statements. Separate management accounting means separate for utility and affiliate organizational costs at the departmental level.

C. Adequacy of Functional and Management Separation Between ETG and Affiliates.

1. ETG Utility and Appliance Services - NUI made progress during the audit period in separating its appliance services business (ASB) from the utility. We consider functional and management separation between ETG and the ASB to be adequate (Chapter 4).

2. ETG Utility and Retail Energy Services - ETG and its retail energy affiliate, NUI Energy, maintained separate employees and office space. NUI represents that ETG does not sell gas or release pipeline capacity to Energy. Energy Brokers (the wholesale affiliate) performs a brokering (transaction execution) function for itself and ETG and also sells gas to Energy.[2] Although common functions performed by Energy Brokers may create an indirect relationship between ETG and its retail affiliate, this appears to be mitigated by ETG's avoidance of supply and capacity transactions with Energy. As such, management and functional separation between ETG and Energy appears adequate (Chapter 5).

3. ETG Utility and Wholesale Energy Services - Energy Brokers maintained a department and office space separate from ETG. As noted above, Energy Brokers performs ETG's transaction executions. Transaction execution is part of the merchant function, a function that Affiliate Standards prohibit from being shared by the utility and a "competitive services" affiliate. However, it is Overland's understanding that as a "wholesale" affiliate, Energy Brokers is not subject to BPU Affiliate Standards; therefore, the merchant activities shared with ETG do not appear to be at variance with the Standards. ETG and Energy Brokers share an energy management system, but Energy Brokers' management represents that separate asset "portfolios" (gas and transportation capacity) are maintained within the system and that Energy Brokers does not sell to ETG from its portfolio. Although we were unable to perform detailed testing to independently verify these representations, we found nothing during the audit to suggest that they were not accurate (Chapter 5). Apart from the shared merchant function, Energy Brokers and ETG are functionally separate.

4. ETG and Utility Business Services (UBS) - UBS performs billing and remittance processing and provides "geographic information services" for ETG and other utilities. Although NUI maintains separate departments for UBS, functional separation between UBS and ETG was inadequate. For example, NUI maintained a number of employees dedicated to NUI Utilities within UBS, and charged the utilities for these employees. We believe it would have cost NUI Utilities less, maybe a lot less, to maintain these employees on its or ETG's payroll (Chapter 6).

5. ETG and Telecommunications Affiliate (NUI Telecom and TIC) - Functional and management separations between ETG and its telecommunications affiliates was adequate during the audit period (Chapter 7).

[2] The Affiliate Standards definition of "Services That May Not Be Shared" appears to prohibit a utility from sharing the merchant function with a competitive services segment.

D. Cross-Subsidization

1. Common Cost Allocations - NUI's allocation procedures did not always result in full allocations of costs to business units. NUI's method for allocating many corporate costs - a size-based three-factor formula - is not an attributable basis for allocation. Based on the factors used, it is possible that costs were over-allocated to ETG. An over-allocation of common costs to ETG, and a corresponding under-allocation to affiliates would be a cross-subsidy of affiliates by ETG. No firm conclusion about cross subsidization can be drawn without performing an attributable cost allocation study of NUI's corporate costs (Chapter 3).

2. The Union Office Building Lease - NUI has a lease with a related party, Liberty Hall Joint Venture (Liberty Hall) for its Union, New Jersey office building. Currently, the lease is structured to place the market risk associated with space the cannot be efficiently used on NUI. A restructuring of the lease in 2000 extended NUI's commitment to the building by 15 years and transferred the portion of market risk that had been borne by Liberty Hall to NUI. We estimate NUI's annual lease costs are $2.3 million higher, and ETG's $1.5 million higher, than if NUI was able to lease only the space it could efficiently use at the market price. NUI's purchase of excess space at a price above the market price and owner Liberty Hall's transfer of the market risk for renting excess space to NUI could be viewed as a cross-subsidy of Liberty Hall by NUI and ETG (Chapter 3).

3. Appliance Services - The prices ETG's appliance services business unit (ASB) charged were not high enough to cover fully allocated costs. The New Jersey ASB incurred net losses of $1.3 million in fiscal year 2001 and an estimated $800,000 in 2002. This represents a cross subsidy of the ASB by NUI and its shareholders. Costs recorded by ETG for the Rahway operating facility used by the ASB reflect a cross-subsidy of the ASB by ETG. Potential over-allocation of common corporate costs due to NUI's use of a three-factor formula reflects a possible cross-subsidy of the ASB by ETG (Chapter 4).

4. NUI Energy Brokers - Energy Brokers, NUI's wholesale gas affiliate, provides "merchant function" services to ETG, including market research and transaction execution, at no charge. The value of services provided but not compensated can be considered a cross-subsidy of ETG by NUI and its shareholders (Chapter 5).

5. Utility Business Services (UBS) - Documentation of transactions between UBS and ETG showed that ETG funded the development of Wins Fieldbook, a mapping database application that UBS repackaged and sold in modified form to the market. This appears to be a cross-subsidy of UBS by ETG. In 2002, UBS's Operations Applications and Services (OAS) department charged NUI Utilities nearly $1.5 million for geographic information services, approximately 50 percent more than OAS charged all of its external customers combined. If, as it appears, the services OAS provided to ETG, which are unsupported by timesheets or itemized inter-company bills, do not reflect services that ETG would have purchased from the market in the absence of UBS, ETG cross-subsidized UBS (Chapter 6).

E. Ratepayer Impact of Using Utility Assets to Provide Competitive Services

ETG's operations and most of ETG's physical assets were adequately separated from the operations of most affiliates. Appliance and utility services technicians were effectively separated by the end of the audit period and most appliance and utility customer operations were separate. We did not find that competitive service segments or other affiliates used utility assets in a way that would significantly affect ratepayers. One exception was the Rahway facility, owned by ETG and used by the Appliance Service Business. We were unable to find evidence that the ASB compensated ETG for its use of Rahway. This directly affected ratepayers to the extent the Rahway costs were recovered through utility rates. The ASB also benefited from the use of the utility brand. This provides the ASB with a competitive advantage, but does not directly affect the amounts ETG's ratepayers pay for utility service.

F. The Impact of Competitive Services on Utility Workers

It does not appear that NUI's competitive services had a significant impact on utility workers during the audit period. NUI split the utility and ASB into separate appliance services departments in 2000. In fiscal year 2002, NUI moved 27 technicians from the ASB back into the utility, but overall utility technician force levels remained steady. The ASB hired a separate group of customer service representatives in 2002, which may have led to some excess customer service positions in Florida, where appliance customer services were previously handled.

G. The Impact of Utility Practices on the Market for Competitive Services

The New Jersey ASB has several advantages over smaller competitors. These include affiliation with the utility and its recognized name, economies of scale, access to the utility's billing envelope and an appliance services selection option on the utility's automatic call router. There are also competitive disadvantages. They include negative impressions some people have of the utility, being restricted to tariffed rates, the administrative costs of justifying changes in those rates, and the incurrence of corporate overhead costs not incurred by smaller appliance service providers.

The ASB's competitive advantages should outweigh its disadvantages with respect to smaller competitors. However, the ASB was not profitable during the audit period; thus, it appears that a variety of cost and market factors offset the advantages listed above. In addition, larger competitors, such as national retail chains that provide appliance services, may have similar abilities to realize economies of scale and have even better brand recognition than ETG. The ASB is not necessarily at a competitive advantage with respect to these larger, nationally recognized competitors.

H. Implementation of Prior Audit Recommendations

In general, NUI complied with the prior audit recommendations adopted by the BPU. To the extent the BPU's Affiliate Standards apply only to the affiliates that NUI classifies as "affected affiliates" (NUI Telecom, NUI Energy and NUI Energy Solutions), NUI has complied with prior audit recommendations concerning shared board memberships and officers. If the Affiliate Standards are deemed apply to UBS or TIC (neither of which serve "wholesale" markets), some of NUI's board and officer memberships are at variance with the Affiliate Standards. We also considered prior audit recommendations that were deferred or rejected by the BPU. To the extent we believed these recommendations had validity, they have been considered in our current audit recommendations, discussed below.

V. Audit Recommendations

A. Affiliate Transactions Internal Control (Chapter 2)

1. Prepare monthly or quarterly itemized statements of inter-company services and charges (including allocations) for review by the business units and departments being charged for the services [Finding 2-II-A].

NUI subsidiaries providing inter-company services should provide periodic statements itemizing the services they provide and associated costs to the business units and departments that must bear the cost of the services. This should: 1) assist departments being charged for the services manage their costs by controlling the level of inter-company services they use; 2) reduce misunderstandings and mistakes in affiliate charges and allocations (if they have the proper detail, the units being charged are the most likely to find mistakes), and 3) enhance the auditability of inter-company transactions.

2. Develop service agreements to describe the nature, terms and prices to be charged for inter-company services [Finding 2-II-A].

ETG currently has an inter-company service agreement with Energy Brokers for the gas procurement services that Energy Brokers provides to the gas utility. Inter-company service agreements should be executed between ETG and all affiliates providing services to it. These agreements should specify the nature of services to be provided, the transfer pricing basis for the service consistent with Affiliate Standards, and the terms under which service is to be provided and recompensed. Once executed, the agreements should be included in the Compliance Plan.

3. Expand the applicability of ETG's "Asset Transfer, Leases and Rentals" policy to include all inter-company transactions and all affiliates. Remove the limitation on applicability to "affected affiliates" and clearly specify applicability to all inter-company services transactions [Finding 2-II-A].

There are two problems with ETG's existing inter-company policy: 1) ETG has limited its applicability to "competitive service segments" and "affected (retail) affiliates" and 2) it does not define inter-company services (in addition to "asset transfers, leases or rentals"), clearly indicate its applicability to services or specify "fully allocated cost" as a transfer pricing basis for services. The cross-subsidies that may occur due to failure to recognize or properly transfer price inter-company transactions are not limited to the transactions with ETG's limited set of "affected affiliates". ETG's ratepayers are protected only if these requirements apply to and are implemented for all ETG affiliate transactions. Neither the title nor the definitions and terms of the procedure make it clear that it applies to services provided between ETG and affiliates in addition to asset transfers, leases and rentals. The procedure should also clearly state and the nature of inter-company services covered.

4. Develop an inter-company transaction procedure that provides for monthly settlement of amounts owed by affiliates to one-another. Investigate and clear the existing large, unsettled inter-company receivables and payables balances that have accumulated over the years [Finding 2-II-A].

ETG's current accounting procedures have allowed inter-company payables and receivables (due to / due from) accounts to accumulate large balances that are not settled on an ongoing basis. For example, as of July 31, 2002, UBS showed an inter-company receivable implying that ETG owed UBS almost $36 million, an amount equivalent to approximately 4 years of revenue for UBS from all internal and external sources. According to its balance sheet, the ASB owed NUI more than $11 million in 2002. NUI and ETG should develop reasonable procedures and accounting entries to provide for monthly settlement of inter-company balances. Absent these procedures, the inter-company payables and receivables accounts have little meaning and do not provide the intended internal control over inter-company transactions.

B. Common Cost Allocations (Chapter 3)

1. Adopt an attributable cost basis for allocating the common costs of NUIHQ departments and ETG departments providing shared utility services. Whenever possible, identify employee efforts benefitting subsidiaries using timesheets [Findings 2-II-A, 3-II-B].

NUIHQ currently allocates most of its corporate costs using a three-factor formula. The three-factor formula does not link common costs to subsidiaries based on causation. The factors NUI has selected for the formula result in an over-weighting of cost allocations to utility affiliates. NUI and ETG should stop using the three-factor formula as a basis for cost allocations and replace it with an attributable cost allocation procedure.[3] Allocation procedures should be enhanced as follows:

C For NUIHQ departments, NUI should analyze the factors that give rise to costs in each NUIHQ function. In legal and regulatory affairs, this means tracking employee efforts by legal or regulatory matter and allocating them based on the subsidiaries that gave rise to the matters. In information technology, it means tracking time by information system and application and allocating accumulated cost based on the subsidiaries that use each information system and application. For desktop computer functions, including network maintenance, it means identifying the cost of those functions and allocating them based on desktop computers maintained for each subsidiary. For human resources, it means identifying functions in which efforts relate to employees and allocating the associated costs based on relative subsidiary employee levels. For certain functions, such as executive management, it means identifying and charging time directly to subsidiaries when working on those subsidiaries, much as a professional services firm does when billing its clients. Having done this, certain executive costs, corporate governance costs and corporate administrative costs (such as corporate accounting) remain unallocated. Under attributable cost procedures, these "residual" costs should be allocated in proportion to the relative costs directly assigned and allocated on an attributable basis.

C Several important shared ETG functions are already allocated on an attributable cost basis, including portions of the customer services function, the dispatch function and the transportation maintenance function. The attribution factor currently used by the

[3] Attributable cost principles are discussed in Chapter 3.

dispatch function should be improved by substituting a measure of dispatch activity (such as jobs dispatched by subsidiary) for the use of customer counts.

2. Implement management accounting procedures to fully allocate all common costs attributable to a business unit to its individual departments [Finding 3-II-D].

NUI's management accounting procedures do not provide for the full allocation of certain costs to the department level. Until 2002, employee benefits costs were not allocated to the department level. Facilities costs (rent, utilities, etc.) continue to be allocated only to the business unit level. Because shared functions are allocated between affiliates based on departmental costs, a failure to allocate costs to the department level means that the costs are improperly excluded from the shared subsidiary allocations. As such, subsidiary allocations are not based on fully allocated costs. The facilities costs of the Florida call center (which are not properly allocated between CGF and ETG) are an example of this, as are the costs of the Rahway operations center, which should, but do not, attach to ASB departments. This problem can be corrected by ensuring that facilities, employee benefits, insurance and other common departmental costs are all properly charged to the department level for responsibility accounting purposes.

3. Limit ETG's charge for the direct and NUIHQ-allocated rental costs of the Union facility to the market price for efficiently-used space in the facility [Finding 3-II-E].

As discussed in chapter 3, Overland estimates that ETG incurs about $1.5 million more each year in office facilities cost than it would if rental cost of the 1085 Morris office facility in Union was limited to the current market price and amount of space that NUI and ETG can efficiently use. ETG's charges for Union should exclude the difference between what ETG is currently being charged for what NUI considers "rentable" space (approximately $45 per square foot) and the market price for the space evidenced by what third parties pay (approximately $29 per square foot). ETG's Union facility charges should also exclude the costs of excess space that NUI incurs due to its recently amended lease agreement with related party Liberty Hall Joint Venture. Much of this excess space is embedded in an NUIHQ-to-ETG allocation for 55,000 square feet of space occupied by just 89 NUIHQ employees. NUI should retain all of Union's excess facilities expense at the parent level where it will be borne by shareholders; however, if ETG continues to be charged, the excess cost (any direct or allocated amount exceeding $29 times efficiently used square footage) should be recorded below-the-line to prevent cross-subsidization by ETG's ratepayers.

4. Charge the market rental value of the Rahway operations center to the ASB unit [Finding 3-II-F].

The ASB is currently the only business unit occupying a Rahway operations center owned by ETG. The rental value of this facility should be calculated, charged to ASB and recorded as an above-the-line inter-company revenue on ETG's books.

5. Obtain support to enable an attributable cost-based allocation of corporate liability, property and workers compensation insurance [Finding 3-II-G].

Corporate insurance costs should be allocated based on NUI's evaluation of the subsidiaries giving rise to the costs and should be supported by analysis. Under the current procedure, NUI relies on insurance companies to make the allocations and NUI has no support to tell it how the insurers arrive at their allocation decisions. NUI should obtain an understanding of how its insurance costs relate to insurable events and assets. To the extent NUI cannot practically obtain this information from insurance companies, it represents an internal control weakness.

C. ASB Floor Prices (Chapter 4)

1. Recalculate floor prices based on fully allocated New Jersey ASB costs. Update tariffed appliance services prices based on recalculated floor prices [Finding 4-II-F].

NUI's floor prices are several years old and are not based on the fully-allocated costs of providing appliance services. In calculating the floor prices, NUI attempted to "add up" the unit costs of providing services instead of beginning with the ASB's total incurred costs (reflected on ASB's income statement). Even if NUI had used the ASB's income statement, it was significantly lacking in shared cost allocations back in 1999 when the floor prices currently in effect were calculated. Floor prices should be recalculated using more recent costs and a calculation of fully-allocated cost per productive appliance service hour.

The numerator in the calculation of fully allocated cost per productive hour should be the total costs of providing appliance services reflected on the New Jersey ASB's income statement, including inter-company interest and income taxes.[4] If the 2002 income statement is used, the rental value of the Rahway operations facility should be added to total 2002 expense in calculating the numerator. The denominator should be the number of productive appliance services hours (on-site service contract hours, on-site installation hours and on-site "chargeable" hours) during the applicable period covered by the income statement costs. If properly done, floor prices based on total operating costs divided by productive hours will automatically include the appropriate costs of non-productive time, including vacation and sick time, drive time and other non-productive time (because they are already in the numerator). In developing floor prices for service contract tariffs, total appliance service costs per productive hour should be used. In developing floor prices for "chargeable" work, in which appliance parts are charged separately, total appliance service costs minus parts costs (parts expensed on the income statement) should be used because parts are recovered through a separate charge.

To be accurate, floor prices must begin with a total income statement expenses. Under no circumstances should a recalculated floor price be based on an "added up" calculation of hourly costs. Such a calculation is likely to miss certain costs and any hourly rate based on the calculation is unlikely to fully account for the costs of providing appliance services.

[4] Theoretically, an equity return on investment based on ETG's allowed equity rate of return should also be included. The BPU may wish to consider requiring this; however, it should be noted that ASB is not capital intensive; notably, its primary capital assets (vehicles and its operating space) are leased and are included in operating expense. Depreciation on tools and other assets is also already included in operating expense. For the sake of simplicity, it may be reasonable to ignore equity return on investment in developing floor prices.

D. Energy Brokers' Relationship with ETG and Energy (Chapter 5)

1. Because Energy Brokers acts as a procurement agent for ETG, the inter-company service agreement between these affiliates should include a term prohibiting Energy Brokers from selling gas or gas transportation to ETG except in emergency circumstances, and prohibiting Energy Brokers from profiting from such transactions [Finding 5-II-A].

Energy Brokers and ETG have an inter-company agreement which provides that Energy Brokers performs ETG's gas procurement and a gas asset management function (ETG does not have employees to do this). Among the merchant services Energy Brokers provides to ETG under the agreement are the following:[5]

- Acts as agent to acquire gas supply for delivery to ETG's city gates
- Performs all nominating, scheduling and other activities necessary to deliver gas to city gates.
- Adjusts deliveries to accommodate load.
- Assists with regulatory filings

In performing these functions, Energy Brokers has a detailed knowledge of ETG's gas supply function not available to others in the market. Under these circumstances, supply transactions between ETG from Energy Brokers present a potential for conflict of interest. This should be recognized in the inter-company agreement and the agreement should include a term that prohibits such sales except in emergency circumstances when gas, transportation or storage capacity cannot be economically procured from third parties. The term should also specify that under such emergency circumstances, and gas, transportation, or capacity from Energy Services' portfolio will be sold to ETG at Energy Brokers' cost.

E. Purchases from UBS (Chapter 6)

1. UBS should support all professional services charged to NUI with timesheets describing the service performed and the amounts of time required to perform them. NUI Utilities should enter into an agreement each budget year describing the services UBS will provide and the amounts required to fund them. NUI Utilities should not incur the costs of UBS professional services that cannot be billed to third-parties in the market place. UBS should retain all unchargeable costs on its own books. Until this occurs, the BPU should consider requiring ETG to record all charges from UBS's Operations and Applications Services department below-the-line to avoid ratepayer cross-subsidization [Findings 6-II-D, 6-II-F].

UBS provides customer information, billing and remittance processing as well as geographic information services. UBS claims to have approximately 65 utility customers. At least several of these customers obtain geographic services and applications from UBS's Operations and Applications Services (OAS) department. However, a majority of the OAS department's revenues are obtained not from third-party customers, but from inter-company charges to NUI Utilities. Without a detailed accounting for the charges, it is impossible to evaluate the nature of the services charged by OAS or whether NUI Utilities derives a benefit. As described below,

[5] OC-10, Agency Agreement between ETG and Energy Brokers, Exhibit A - Scope of Services

some of the OAS time charged to NUI Utilities and allocated to ETG appears to have related to development of new UBS products intended for the marketplace, such as Wins Fieldbook.

2. ETG should not record the costs of UBS development efforts in its regulated accounts. The BPU should consider requiring NUI Utilities to identify and credit ETG for the costs of Wins Fieldbook, a UBS digital mapping application UBS sells third parties, that ETG helped pay to develop. The BPU should also consider prohibiting ETG from funding UBS's product development efforts [Finding 6-II-G].

Evidence suggests that ETG and other NUI Utilities helped fund or completely funded the development of at least two UBS products. Journal entry descriptions reveal that ETG funded the development of Wins Fieldbook, a digital map access application. A company news article shows that ETG also served as a beta-tester for Wins Fieldbook. In 2000 and 2001, NUI Utilities appears to have been charged as part of an effort to convert ETG's customer information system to UBS's Wins CIS application (a water / wastewater customer information system application). The effort was abandoned. However, had it been completed, the conversion would have provided UBS a version of Wins CIS adapted to the gas industry. It is unclear whether UBS bore any of the expense of the abandoned conversion attempt. It is unlikely that NUI Utilities or ETG were scheduled to participate in the profits that would have been realized by UBS in selling the newly-adapted Wins CIS to gas utilities. ETG should not be paying the costs of developing UBS products intended for the marketplace. To the extent that it does, it represents a cross-subsidy.

3. The BPU should carefully consider NUI's interpretation that UBS is not a "retail" affiliate subject to the BPU standards.

Attachment D to ETG's Compliance Plan contains descriptions of NUI's affiliates and a definition of "retail" that indicate NUI does not consider UBS to be a "retail" affiliate. UBS is similar to Millennium Account Services (Millennium), the joint meter reading venture between South Jersey Industries and Conectiv, in that it provides services to utilities that the utilities might otherwise provide to themselves. UBS is unlike Millennium in that it serves both to affiliated and non-affiliated utilities, while Millennium serves only its affiliated owners. The BPU Staff has indicated its belief that Millennium is a retail affiliate and is subject to Affiliate Standards. If Millennium is subject to the Affiliate Standards, it is difficult to see how the Standards would not also apply to UBS.

F. Purchases from Telecom (Chapter 7)

1. NUI should immediately complete an inventory of all telecommunications facilities and services it uses and purchases from Telecom. This inventory should be reconciled with currently unidentifiable charges on bills from Telecom. Telecom should identify all telecommunications facilities and services passed through from other carriers and billed to NUI with an NUI business unit, department, geographic location and description of the service or facility provided. Until this is done, Telecom should cease billing NUI for unidentified amounts (or, at a minimum, to avoid ratepayer cross subsidization, ETG should stop recording allocations of such charges above the line) [Finding 7-II-E].

More than half the telecommunications services billed by Telecom to NUI during the audit period were unsubstantiated during the audit. NUI represents that these are telecommunications facilities and services provided by other carriers that Telecom administers and passes through to NUI on its bill. There is no way of knowing which NUI department or business unit uses the services (so they cannot be properly charged) or even that they represent a service provided to NUI (as opposed to another third party customer of Telecom). NUI and Telecom should identify all telecommunications charges coming through on affiliate bills by business unit, department and geographic location. The budget of the department responsible for the cost should be charged. Only when this is done can there be an internal control to ensure that Telecom does not charge NUI for large, unidentifiable facilities and services that are not attributable to NUI's own internal usage of Telecom's services.

After the audit was completed, in response to OC-138 NUI provided what it considers to be an inventory of the facilities that we determined unsubstantiated on Telecom's bills. Overland reviewed this inventory and was unable to match a single item on the inventory with the unsubstantiated amounts on NUI's affiliate billing for the period September, 2002. As a result, the amounts on the bills remain unsubstantiated.

The fundamental problem is that the descriptions on affiliate bills cannot be compared with items on the inventory; thus, the amounts on the bills are not substantiated in any way by the inventory in its current form. For example, consider the format of unsubstantiated items from the affiliate bill covering services provided in September, 2002:

NW/AT&T 8000 091 5795 - $1,983.63

and the format of items listed on the Bedminster inventory dated September, 2002:

COT 3-pair-5, Brokers Fax, Brokers 2FL under TV (Bedminster)

The bill contains cryptic descriptions, no locations and amounts. The inventory listing contains different kinds of cryptic descriptions, some location data, but (generally) no amounts. There is simply no way to reconcile facilities on Telecom's bills to NUI, a significant percentage of which are charged to ETG, with facilities shown on the inventory. As a result, we conclude that it is *possible* that ETG is paying Telecom for facilities that Telecom uses to provide services to customers that are unaffiliated with NUI or ETG. It is *likely* that ETG is paying for Telecom for facilities that Telecom uses to provide services to ETG's non-regulated affiliates, such as Energy Brokers, and vice-versa, but the net impact on ETG cannot be determined. The inventory NUI provided after the completion of the audit provides <u>no</u> assurance that NUI and ETG are properly billed for these unsubstantiated facilities. In summary, the inventory listing provided in response to OC-138 does <u>not</u> satisfy the audit recommendation.

Chapter 2 - Organization Overview, Internal Control, Board and Officer Restrictions and Implementation of Prior Audit Recommendations

Chapter 2 - Organizational Overview, Internal Control, Board and Officer Restrictions and Implementation of Prior Audit Recommendations

I. Introduction

This chapter provides an overview of NUI Corporation (NUI) and its subsidiaries, an assessment of NUI internal controls governing affiliate transactions, an assessment of NUI's compliance with Affiliate Standards concerning shared officers and board members, a review of Elizabethtown Gas' (ETG) implementation of prior audit recommendations, and our audit analysis of cross-subsidization.

II. Summary of Audit Findings

A. **Affiliate Transaction Internal Control** - We examined the internal controls in place to ensure that NUI's and ETG's inter-company transactions are properly identified, measured and charged to the appropriate NUI subsidiaries. NUI uses inter-company payables and receivables accounts as control points for affiliate transactions, but inter-company balances are not settled on a regular basis. In some cases, unsettled balances have been growing for years. With the exception of NUI Telecom, NUI's subsidiaries do not prepare itemized bills showing amounts charged for various inter-company functions. Improving the transparency of affiliate transactions with better descriptions and itemizations would enhance understanding, auditability and internal control. Except for the gas procurement services provided by Energy Brokers to ETG, the nature, terms and prices for inter-company services are generally not documented through service agreements. The applicability of an affiliate transactions procedure establishing both transfer pricing and accounting separations controls is limited to transactions between ETG and three "affected affiliates" (NUI Energy, Energy Solutions (an inactive entity), and NUI Telecom). The internal controls established by the procedure affect all ETG inter-company transactions. The current NUI written cost allocation procedure is too generic to obtain an understanding of the common cost allocation process.

B. **Compliance with Board and Officer Restrictions** - NUI has limited board and officer cross-memberships between ETG and three "affected affiliates" (NUI Telecom, NUI Energy and NUI Energy Solutions) which NUI classifies as subject to the Affiliate Standards. There are board memberships and corporate officer responsibilities that cross organizational lines between ETG and other affiliates, such as NUI Energy Brokers (the wholesale energy affiliate), Virginia Gas (a gas storage company) and UBS (a company providing administrative services to other utilities).

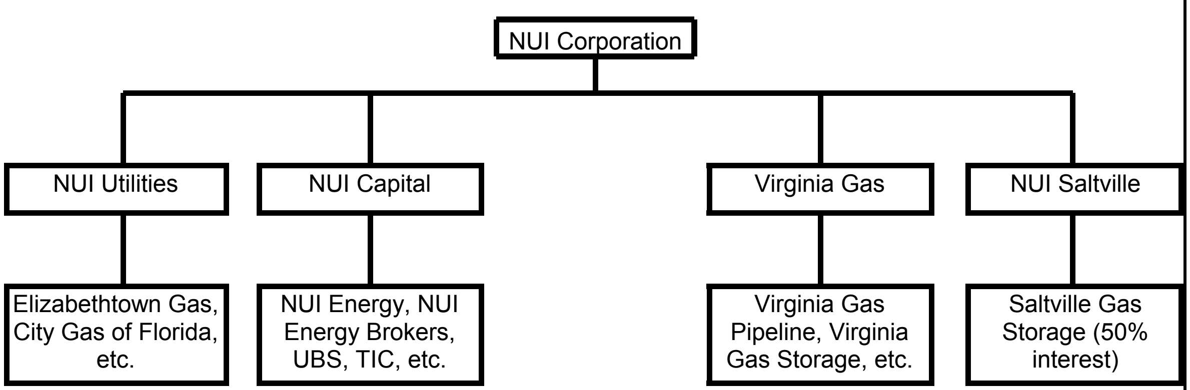
C. **Prior Audit Recommendations** - We examined the implementation of prior audit recommendations that were accepted, rejected, or deferred by the New Jersey Board of Public Utilities (BPU). In general, NUI complied with the prior audit recommendations adopted by the BPU. To the extent the BPU's Affiliate Standards apply only to the affiliates that NUI classifies as "affected affiliates" (NUI Telecom, NUI Energy and NUI Energy Solutions), NUI has complied with prior audit recommendations concerning shared board memberships and related procedures. NUI also filed a recommended

Compliance Plan (although it should be better organized), implemented an affiliate transactions procedure addressing asset transfers and leases, and established separate sets of books for its non-regulated businesses, including its New Jersey appliance services business. NUI has not implemented any of the seven prior audit recommendations not adopted by the BPU.

III. Overview of NUI's Corporate Structure

NUI's functional and management accounting structure differs somewhat from its legal structure. Legally, NUI consists of holding and operating companies. Functionally, the company is divided into four corporate divisions: Distribution Services, Retail and Business Services, Wholesale Energy Marketing and Trading, and Corporate Services. These divisions are divided into business units and the business units into departments. A high-level chart summarizing the legal structure of NUI is presented below. Attachment 2-1 includes a more detailed presentation of the legal organization.

Chart 2-1
NUI
Simplified Legal Organizational Structure



Source: OC-16

NUI's management accounting procedures, which dictate allocations of costs, are aligned with the functional (business unit and departmental) structure. The table below summarizes the functional structure and relationship between NUI's functional business units and legal entities as it existed at the end of fiscal year 2002.

Table 2-1
NUI Corporation and Subsidiaries
Functional and Legal Organizational Relationships

Corporate Division	Business Unit	Legal Affiliation
Distribution Services	City Gas of Florida	City Gas of Florida/NUI Utilities
	Elkton Gas (Maryland)	Elkton Gas/NUI Utilities
	ETG (New Jersey)	ETG/NUI Utilities
	North Carolina Gas (Sold)	North Carolina Gas/NUI Utilities
	Valley Cities Gas (Pennsylvania) (Sold)	Valley Cities Gas/NUI Utilities
	Waverly Gas (New York) (Sold)	Waverly Gas/NUI Utilities
Retail and Business Services	Florida Appliance Business	City Gas of Florida / NUI Utilities
	Florida Plumbing Business	City Gas of Florida / NUI Utilities
	North Carolina Appliance Business (Sold)	North Carolina Gas/NUI Utilities
	New Jersey Appliance Business	ETG / NUI Utilities
	NUI Telecom	NUI Capital
	TIC Enterprises (TIC)	NUI Sales Mgmt./NUI Capital
	Utility Business Services (UBS)	NUI Capital
	NUI Energy	NUI Capital
	NUI Energy Solutions	NUI Capital
Wholesale Energy Marketing and Trading	NUI Energy Brokers	NUI Capital
	Virginia Gas	Virginia Gas
Corporate Services	NUI Headquarters	NUI Corporation
	NUI Environmental	NUI Capital
	NUI Ventures	unknown
Source: OC-16 and Audit Analysis		

A. Distribution Services

Distribution Services includes the regulated gas utility businesses. These subsidiaries are legally part of NUI Utilities, Inc. ETG is the largest NUI utility. ETG serves approximately 255,000 customers in central and northwestern New Jersey.[1] Utility sizes are summarized below.

1 September 30, 2001 NUI Form 10-K.

Table 2-2
Distribution Services (NUI Utilities)
2002 Utility Comparison

	Plant, Revenue, and Operating Expense Amounts in 000's					
	Elizabethtown Gas	**City Gas of Florida**	**North Carolina Gas (1)**	**Valley Cities Gas (1)**	**Elkton Gas**	**Waverly Gas (1)**
Number of Customers	253,889	101,086	14,004	5,075	4,500	1,389
Plant (net)	396,958	132,181	-	11,404	5,608	1,785
Revenue	368,875	94,901	13,541	7,393	6,645	1,846
Purchased Gas, Energy Taxes, and Other Operating Expense	333,652	87,063	13,652	4,837	6,384	2,529

Notes 1: North Carolina Gas, Valley Cities Gas, and Waverly Gas were sold during fiscal year 2002.
Source: OC-40 and OC-115

As noted in the table above, NUI sold its North Carolina Gas, Valley Cities Gas, and Waverly Gas subsidiaries during 2002.

B. <u>Retail and Business Services</u>

Retail and Business Services consists of business units providing appliance services, telecommunications, utility business services, and energy supply. The appliance services business units are centrally managed from New Jersey and are legally part of NUI Utilities, Inc. Each individual appliance unit is a division of the utility in the geographic area in which it operates. For example, the New Jersey Appliance Business is a division of ETG. The telecommunications business consisted of two sales and marketing companies in 2000 and 2001. TIC Enterprises (TIC) sold customer premises equipment such as PBX systems manufactured by Lucent Technologies and Nortel until most operations ceased in 2002. NUI Telecom (Telecom) resells local, long distance and wireless telephone services. NUI is one of Telecom's largest customers. Both TIC and Telecom are legal subsidiaries of NUI Capital Corporation. Utility Business Services (UBS) provides billing and payment processing services to NUI and other utilities, licenses and maintains a proprietary customer information system to water utilities and sells geographic information services, primarily related to computerized mapping. NUI is the largest of its claimed 65 utility customers, accounting for more than half of its total revenue. UBS is also an NUI Capital Corporation subsidiary. NUI Energy is the Company's retail service provider. NUI Energy Solutions, now nearly inactive, was established to provide energy management and consulting services. Both NUI Energy and NUI Energy Solutions are legal subsidiaries of NUI Capital Corporation. The table below summarizes the employees, total revenues (before consolidation), and inter-company revenues associated with each line of business in the Retail and Business Services corporate division.

Table 2-3 **NUI Retail and Business Services** **2002 Inter-company Revenue Analysis**			
Business Unit	**Employees**	**Total Revenue**	**Inter-company Revenue**
Florida Appliance Business	35	$7,593,044	$ 330,427
Florida Plumbing Business	5	-	-
North Carolina Appliance Business	5	332,410	155,100
New Jersey Appliance Business	55	7,446,975	281,354
NUI Telecom	51	30,070,281	2,107,128
TIC	36	17,564,138	73,246
Utility Business Services	58	8,667,078	4,153,099
NUI Energy	25	113,583,000	-
NUI Energy Solutions	-	289,000	-
Total	270	$185,545,926	$7,100,354
Source: OC-25 (Employees), OC-115 (Total Revenue), OC-136 (Total Revenue and Inter-company Revenue), and Audit Analysis			

C. Wholesale Energy Marketing and Trading

Wholesale energy marketing and trading consists of two subsidiaries. NUI Energy Brokers provides wholesale trading and gas portfolio management services. Virginia Gas Company is a natural gas storage, pipeline, and distribution company. NUI Energy Brokers is a legal subsidiary of NUI Capital Corporation. Virginia Gas is a legally separate subsidiary under the NUI Corporation umbrella. Its pipeline, storage and distribution companies are divisions of Virginia Gas Company.

D. Corporate Services

Corporate Services consists of a set of departments that provide functions serving the corporation as a whole. Functionally, these departments act like a service company; however, NUI has chosen not to legally separate them. NUI Headquarters (NUIHQ) is the business unit designation for departments residing under the NUI Corporation umbrella that provide these corporate administrative services. NUI also lists two extremely small entities, NUI Environmental and NUI Ventures as Corporate Services business units. NUI Environmental is legally a part of NUI Capital Corporation. NUI Ventures' legal affiliation is unclear. The costs from most of NUIHQ departments are distributed to the utilities and other operating subsidiaries using a three-factor formula based on relative levels of plant, customers and employees. The table below summarizes the NUIHQ departments.

Table 2-4 **NUI** **Corporate Services Departments**	
Corporate Governance	Treasury Investor Relations Executive Secretary
Corporate Management and Administration	Corporate Development Legal and Regulatory Affairs Public Affairs Marketing Accounting Internal Audit Human Resources Insurance
Operations	Information Technology Building Services and Real Estate Management Purchasing
Source: OC-21, OC-89 and Audit Analysis	

IV. Audit Analysis

A. Affiliate Transaction Internal Accounting Control

The ability to audit affiliate transactions and demonstrate that subsidiaries are not cross-subsidized requires that inter-company transactions are properly recognized, identified, measured and properly recorded. Recognition and accurate recording of inter-company transactions depends on a functioning system of internal accounting controls. Our audit led to the following observations about internal controls:

1. Inter-company Control Accounts - The use of inter-company receivables and payables accounts to maintain accounting for affiliate transactions is an important internal control. NUI has established inter-company "due to / due from" (payables and receivables) accounts to control inter-company transactions. However, we found that NUI does not have an effective procedure for inter-company balance settlement, as discussed below.

2. Timesheets - Much of the inter-company activity between a utility and its affiliates involves the provision of services by employees of one company for the benefit of another. Timesheets are a key element in helping to ensure that employee efforts attributable to specific subsidiaries are properly identified and recorded for cost assignment. NUI does not use timesheets to document inter-company efforts or to assign them to appropriate subsidiaries or groups of subsidiaries. Instead, the size-based three-factor formula is used for distributing most corporate costs.

3. Inter-company Invoices - Periodic itemizing of inter-company charges enhances the transparency and auditability of affiliate transactions, improving control and limiting the opportunity for mis-charges. NUI does not itemize inter-company charges in a billing

format. Itemizing does not mean that inter-company bills must be prepared and printed out on paper. Often, the same spreadsheets used to develop inter-company allocations and journal entries can be used to prepare an itemization of charges from each charging or allocating affiliate to the manager or cost accountant responsible for the charges in each billed subsidiary.

4. Inter-company Service Agreements - Inter-company service agreements document the nature, terms and prices for inter-company services. In showing what affiliates are receiving from one another and at what price, they enhance control by limiting opportunities for mistakes and misunderstandings. Inter-company service agreements increase the transparency of inter-company transactions, enhancing the ability to understand and audit the transactions. ETG has an inter-company agency agreement with Energy Brokers containing the appropriate service agreement terms and descriptions.[2] There is also an ETG agreement with NUI Energy to supply seasonal delivery service, a service for which Energy submitted a bid. ETG did not supply service agreements for any of its other inter-company relationships.[3]

5. Affiliate Transaction Procedures and Support - Written procedures describe the methodology behind inter-company charges and cost allocations. NUI has two written procedures that address affiliate transactions. “Policies and Procedures Regarding Regulatory Compliance” addresses transfer pricing requirements and accounting separations between ETG and a small group of “affected affiliates” (NUI Energy, Energy Solutions and Telecom) that NUI deems to be subject to the Affiliate Standards. This procedure is reasonable, but its limited applicability represents a control weakness. The internal control provided by establishing reasonable accounting separations and transfer pricing procedures should extend to transactions between ETG and all affiliates. For example, the fact that NUI does not consider UBS to be an “affected affiliate” should not prevent ETG from limiting the price it pays for services from UBS to the market price.

NUI’s written cost allocation procedure contains a very basic, generic description of the overall corporate allocation process. While useful as a primer, it needs to be enhanced and updated to include sufficient detail to provide an understanding of costs allocated by various corporate functions to ETG and the methods employed to allocate various shared utility functions.

6. Inter-company Transaction Payment and Settlement - Proper control over inter-company payables and receivables requires that they be settled on a regular basis. NUI does not have an effective procedure for settling its inter-company balances. Some of ETG’s inter-company balances and those of certain other NUI subsidiaries continue to grow over time without being settled, inflating subsidiary balance sheets and rendering the inter-company receivables and payable accounts less useful as a control device. The longer the balances grow, the more difficult it will be to determine proper settlement.

[2] OC-41.

[3] OC-41.

B. Compliance with Director and Officer Requirements

1. BPU Requirements

Affiliate Standards prohibit corporate officers and board members from serving both the utility and its competitive services affiliates. Affiliates Relations, Fair Competition and Accounting Standards and Related Reporting Requirements Section 14:4-5.5 (q) states:

> An electric and / or gas public utility and the PUHC or related competitive business segments of its public utility holding company shall not have the same persons serving on the Board of Directors as corporate officers, except for the following circumstances:
>
> 1. In instances when these standards are applicable to public utility holding companies, any board member or corporate officer may serve on the holding company and with either the electric and/or gas public utility or a related competitive business segment of the public utility holding company, but not both the electric and/or gas utility and a related competitive business segment of the public utility company.

2. NUI and Affiliate Boards and Officers

Attachment 2-2 is a table showing the directors and officers for NUI as well as several of its sub-holding and operating companies. It shows that two NUI Directors (John Kean, Jr., President and Chief Executive Officer (CEO) of NUI, and John Kean, Sr., Chairman of NUI's Board of Directors) serve as directors for NUI Corporation (holding company), NUI Utilities (sub-holding company), ETG (regulated gas utility), and NUI Capital (sub-holding company containing both retail and wholesales subsidiaries). John Kean, Jr. also serves as a director for NUI Energy Brokers and UBS.

Six NUI Officers (Kean, Jr.; A. Mark Abramovic, Sr. Vice President, Chief Operating Officer and Chief Financial Officer of NUI; James Van Horn, Chief Administrative Officer, General Counsel and Secretary; Charles N. Garber, Treasurer; Joyce M. Fajnor, Assistant Secretary; and Carol A. Sliker, Assistant Secretary) serve as officers (or in John Kean Jr.'s and A. Mark Abramovic's case officers and/or directors) for a combination of companies, including NUI Corporation, NUI Utilities, ETG, NUI Capital, NUI Energy Brokers, TIC, UBS, and Virginia Gas.

3. NUI's Compliance with BPU Affiliate Standards Board and Officer Restrictions

NUI's Compliance Plan indicates that the applicability of various procedures and guidelines intended to comply with Affiliate Standards is limited to "affected affiliates." Currently, these include NUI Telecom, NUI Energy and NUI Energy Solutions. To the extent the BPU's Affiliate Standards apply only to the affiliates that NUI classifies as "affected affiliates," NUI is in compliance with BPU requirements for board and officer participation. To the extent the BPU may determine that Affiliate Standards apply to any of the following affiliates, NUI's board and officer memberships could be at variance with Affiliate Standards:

- UBS - UBS sells utility billing, remittance processing and operations application services. It also licenses customer service and geographic information system applications to customers in various states, including New Jersey. John Kean, Jr. serves on the boards of UBS and NUI Utilities. John Kean, Jr., A. Mark Abramovic James Van Horn, Charles

Garber, Joyce Fajnor and Carol Sliker are officers of both UBS and NUI Utilities. A variety of people are on the boards and / or are officers of both NUI Utilities and UBS.

- TIC - TIC is being discontinued. Its business was to sell customer premises equipment to business customers in a number of different states. What remains is being merged into Telecom. NUI considers Telecom to be an affected affiliate. Several individuals, including John Kean, Jr., A. Mark Abramovic, James Van Horn, Charles Garber, Joyce Fajnor and Carol Sliker served as officers of both TIC and NUI Utilities.

- NUI Energy Brokers and Virgina Gas - Both of these affiliates sell services that are considered to be "wholesale." To the extent Affiliate Standards do not apply to relationships between NUI Utilities and such an affiliate, NUI is not at variance with board and officer requirements. John Kean, Jr., Mark Abramovic, James Van Horn, Charles Garber, Joyce Fajnor and Carol Sliker serve as officers of Energy Brokers, Virginia Gas and NUI Utilities.

C. Implementation of Prior Audit Recommendations

The discussion below covers audit recommendations accepted by the BPU from the prior audit. To the extent deferred or rejected audit recommendations continue to apply in this audit, they are covered in Chapter 1, Executive Summary, under the heading Audit Recommendations.

1. II-1: Resubmit the NUI Compliance Plan after incorporating the findings and conclusions of this report

NUI resubmitted its compliance plan as required on May 31, 2002. The documentation filed with the BPU, however, is not organized in a useful manner. NUI's plan does not break out subject matter areas into separate sections and often lacks sufficient detail to support its positions regarding compliance with Affiliate Standards and implementation of the findings and conclusions of the Schumaker report.

2. III-1: Reorganize the NUI Corporation in such a manner that no individuals serve as directors or officers for both the regulated and non-regulated entities

NUI has three affiliates (NUI Telecom, NUI Energy and NUI Energy Services) that it considers to be "Affected Affiliates" subject to the BPU's Affiliate Standards. It considers all other affiliates not to be subject to Affiliate Standards. There are no board cross-memberships or shared officers between NUI Utilities and the three affiliates NUI refers to as "Affected Affiliates". NUI continues to maintain board and / or officer cross-memberships between NUI Utilities and other "non-regulated" affiliates, including UBS, TIC, Energy Brokers and Virginia Gas.

3. III-2: Establish specific mechanisms and procedures within NUI to ensure that it complies with the Affiliate Standards for shared officers and directors

The audit recommended incorporating the procedures in the Compliance Plan. The audit report does not define "mechansims and procedures." As noted above, NUI no longer shares officers and directors between ETG and three "Affected Affiliates." The Compliance Plan contains a letter dated February 28, 2002, informing the BPU of this fact. Absent a specific definition of "mechanisms and procedures," we interpret NUI to have complied with the recommendation by

1) reorganizing its board and officer relationships with respect to ETG and Affected Affiliates, 2) notifying the BPU of this fact and 3) including its BPU notification in its Compliance Plan.

4. IV-1: Establish procedures to ensure and document regulatory compliance for asset transfers, leases, or rentals

NUI has satisfied this recommendation. NUI developed procedures regarding asset transfers, leases and rentals and included the procedures in its Compliance Plan.

5. VI-5: Include technician travel time under chargeable time to each job

The recommendation does not have the same meaning at the present time due to the fact that ETG has functionally separated its appliance business from the utility. Currently, the pertinent travel time information to accumulate is the average drive time per call. This average travel time should then be built into the first thirty minutes of "on-site" time and factored into the standard price charged by the appliance business. This recommendation no longer applies.

6. VI-6: Establish separate general ledger accounts for the competitive services

NUI has satisfied this recommendation. NUI has implemented separate general ledger systems for the appliance services business and maintains separate sub-ledgers (sets of books) for all affiliates operating as business units.

D. Audit Analysis of Cross-Subsidization

One of the key audit objectives listed in the BPU's Request for Proposals is to determine whether competitive services are cross-subsidized by utility services. The Affiliate Standards define cross-subsidization as follows:

> "Cross subsidization" means the offering of a competitive product and / or service by [a] . . . public utility, or the offering of a product and / or service by an affiliate, which relies in whole or in part on the utilization of utility employees, equipment or other assets, and for which **full compensation** (via cost allocations or direct payment), as determined by the Board, has not been provided for the use of such . . . public utility assets, resulting in the inappropriate transfer of benefits from the utility ratepayers to the competitive product and / or service or affiliate [Emphasis added].

In order to evaluate cross-subsidization, we needed an objective benchmark to measure "full compensation". The only benchmarks available in the Affiliate Standards are the transfer pricing limitations established by market price and fully allocated cost, each of which may be applicable depending on circumstances. Taking circumstances into account (for example, whether an affiliate service was offered for sale on the open market), we used market price or fully allocated cost as the basis for assessing the existence of, and, when possible, calculating cross-subsidies.

1. Fully Allocated Cost

It is necessary to have a working definition of fully allocated cost in order to apply it as a test of cross-subsidization. As defined by Affiliate Standards, fully allocated cost includes:

- Allocations of direct, indirect and other economic costs of assets utilized; and,
- Costs incurred directly or indirectly in providing competitive services.

In general, we interpreted "costs of assets utilized" to include depreciation and return (debt, equity return at the utility's allowed rate of return and associated income tax) on assets employed, and rent paid to lease assets owned by others, including affiliates.[4] In cases in which an affiliate's "assets employed" were insignificant or in which the affiliate did not earn a profit, we ignored return on investment. We interpreted "costs incurred directly or indirectly" to include direct labor and associated benefits and payroll taxes, utilities, supplies, parts, vehicle operations and a share of the operating costs of shared utility and corporate functions calculated using an attributable cost allocation methodology.

2. Determining the Source of Cross-Subsidies

We also applied the following rules in defining and assessing the source of cross-subsidies:

- Subsidies Evidenced by Financial Losses - To the extent an affiliate lost money, its losses are considered to have been provided by its parent company and shareholders. Thus, affiliate losses are deemed to be cross-subsidization by shareholders. In general, we were able to quantify these cross subsidies when available financial results showed losses.

- Subsidies Evidenced by Unrecognized and Underestimated Affiliate Charges - To the extent an affiliate was not charged or under-charged for the utility and corporate functions that served it, the under-charged or under-allocated amount was a cross-subsidy provided by the other affiliates (mostly the utility) to which the costs were alternatively charged. We used attributable cost as the basis for assessing whether the allocation methodology was likely to have produced this cross-subsidy; however, in most cases involving allocations in which attributable cost was not properly used, it was not possible to quantify the amount of the cross-subsidy.

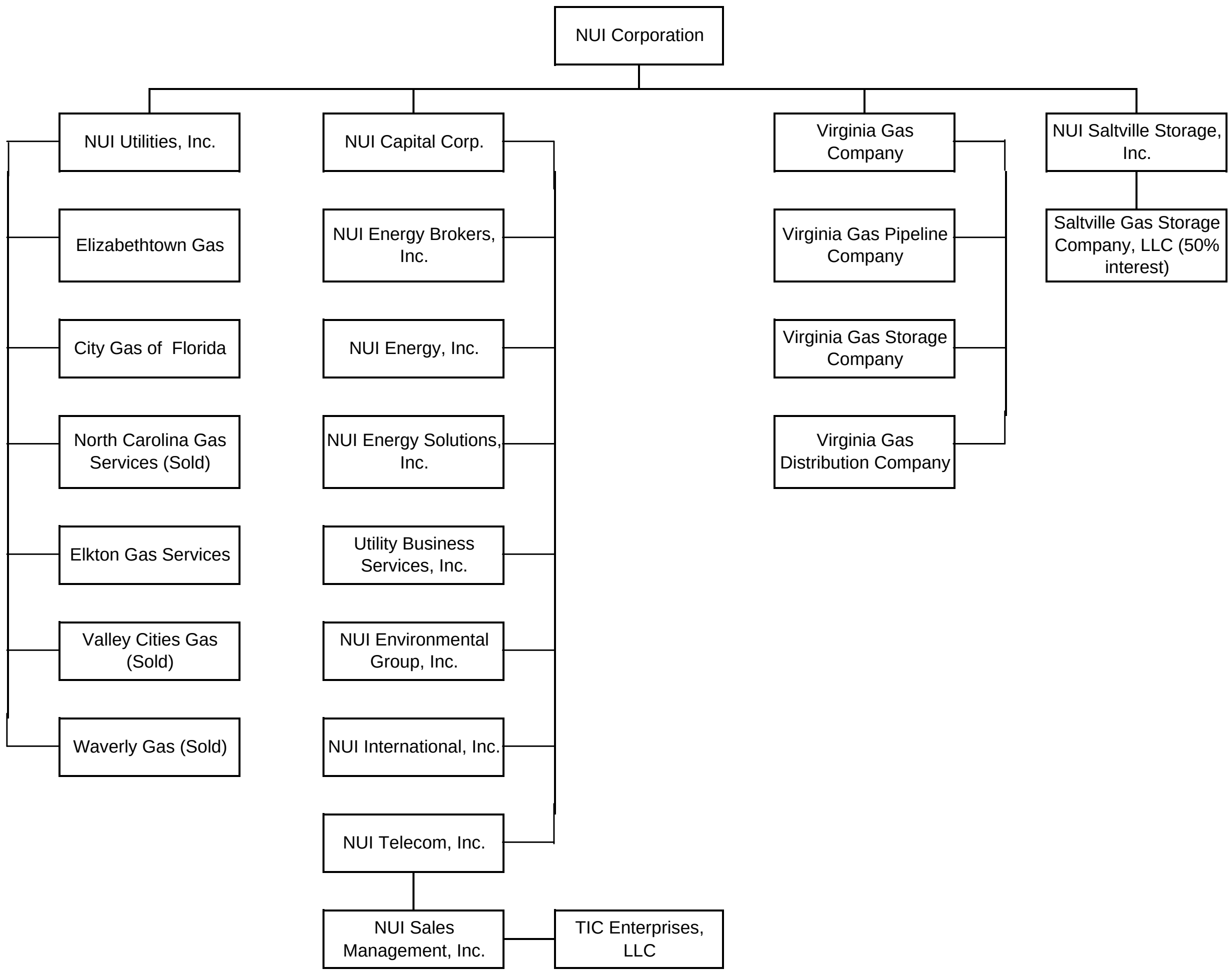
- Intra-Affiliate Subsidies Created by Price Discrimination (Appliance Services) - We considered whether price discrimination within the appliance services business (evidenced by certain promotions and discounts) created cross-subsidies between groups of customers within the business unit or between customers and the parent company's shareholders. For example, senior-citizens discounts can represent a cross-subsidization of older customers by younger ones, or a cross subsidy of older customers by the parent company's shareholders. Discounts for new appliance service customers, including free service contracts provided for some period of time, can represent a cross-subsidization of newer customers by existing customers, or a subsidy by shareholders.

The test of whether subsidies created by discounts are reasonable under Affiliate Standards is whether the appliance unit is profitable overall. If it is profitable, then its prices on average are

[4] However, we ignored return on investment in cases in which the affiliate's investment in capital assets was minimal.

sufficient to cover its costs and it is logical to view discounts as subsidies between customer groups *within* the business unit. Discounts and promotions not designed to drive out competition are legal and widely practiced across the entire spectrum of retail businesses. However, it is not reasonable to paint all discounts and promotions with the same brush. Although we did not find evidence of excessive or predatory discounting in the gas appliance businesses we reviewed, such practices could occur even when the appliance business is profitable. As such, the BPU should consider the circumstances surrounding appliance services discounts and promotions to determine that are not designed to drive competitors out of a market.

NUI Corporation
Legal Organizational Structure



Source: OC-16

NUI Directors and Officers											
	NUI Corporation	NUI Utilities	ETG	NUI Capital	NUI Energy	NUI Energy Brokers	NUI Energy Solutions	NUI Telecom	TIC	UBS	Virginia Gas
	Holding Company	Sub-Holding Company	Gas Utility	Sub-Holding Company	Retail Affiliate	Wholesale Affiliate	Retail Affiliate	Retail Affiliate	Retail Affiliate	Retail Affiliate	Wholesale Affiliate
Directors											
John Kean, Jr.	■	■	■	■		■				■	■
John Kean, Sr.	■	■	■	■							
Dr. Bernard S. Lee	■										
James J. Forese	■										
R. Van Whisnand	■										
J. Russell Hawkins	■										
Dr. Vera King Farris	■										
A. Mark Abramovic				■		■				■	■
Robert F. Lurie					■		■	■			
Richard M. Boudria					■		■	■			
Micheal J. Behan										■	
Stanley J. Brownell											
Duncan S. Ellsworth, Jr.			■								
Barbara Harding			■								
Robert P. Kennedy			■								
Stephen Schachman			■								
Joseph Curia											
Officers											
John Kean, Jr.	■	■		■					■		■
A. Mark Abramovic	■	■		■		■			■	■	■
James R. Van Horn	■	■		■		■			■	■	■
Robert F. Lurie	■				■		■				
Michael J. Behan	■									■	
Charles N. Garber	■	■		■		■			■	■	■
Richard M. Boudria	■				■			■			
Stanley J. Brownell	■					■					
Nathan E. Cagle, Jr.	■										
Daniel J. Edwards	■										
Victor A. Fortkiewicz	■	■									
Jacqueline M. Frank	■										
Robert L. Williams	■									■	
Joyce M. Fajnor	■	■		■		■			■	■	■
Carol A. Sliker	■	■		■		■			■	■	■
Jeanne M. Bratsafolis					■		■	■			
Patti Helfer					■		■	■			
Pual J. Chymiy					■		■	■			

Notes:
1. The abbreviated companies above are as follows:
ETG - Elizabethtown Gas
TIC - TIC Enterprises
UBS - Utility Business Services
Source: OC- 114

Chapter 3 - NUI Common Cost Allocations

Chapter 3 - NUI Common Cost Allocations

I. Introduction

This chapter covers the procedures to allocate and assign the costs of shared corporate and utility functions. NUI Headquarters (NUIHQ), a business unit containing corporate administrative departments such as accounting, human resources and information technology, performs functions serving all NUI subsidiaries. Elizabethtown Gas (ETG) performs functions such as customer service, dispatch and transportation maintenance that are shared with other utilities such as City Gas Florida and with the New Jersey Appliance Services business (ASB).

II. Summary of Audit Findings

A. **Separation of Corporate and Utility Functions** - NUI does not have a separate legal service company containing corporate administrative functions that serve all subsidiaries. However, NUI has separated and classified departments as utility, non-utility subsidiary or corporate for cost accounting purposes. Corporate departments are classified in a NUIHQ business unit. Notwithstanding other cost allocation problems discussed below, the separation and categorization of corporate departments for accounting purposes is sufficient to ensure that costs are accumulated for allocation to benefiting subsidiaries. It does not appear that establishing a separate legal service company for NUIHQ would enhance the existing separation of corporate and utility functions and costs.

B. **NUI's Cost Allocation Methodology** - In many cases, NUI's cost allocation procedures do not fully allocate common costs on an attributable basis to subsidiaries. The two most significant problems with cost allocation procedures include 1) a lack of full allocation of costs from business units to their departments (causing some costs not to be allocated to benefitting subsidiaries) and 2) the use of a non-attributable, size- based allocation formula (three-factor formula) to allocate a majority of the costs of shared corporate functions (causing a potential for over-allocation of costs to utility subsidiaries with decades of accumulated plant).

C. **Three-Factor Formula Allocation** - Problems with NUI's three-factor formula allocation include: 1) the chosen factors and their averaging is arbitrary, and 2) the formula does not provide an attributable (causal) basis for allocating corporate costs to the subsidiary cost objectives. For example, much of the costs drawn to the utilities under this formula is based on the amount of plant they accumulated over many years, even decades. There is little or no link between the plant a subsidiary recorded in past decades and the activities (cost drivers) that cause current year costs to be incurred.

D. **Lack of Full Allocation of Costs to Departments** - NUI did not fully allocate all costs attributable to business units to the departments in the business units during the audit period. For example, employee benefits were allocated to the business unit, but not the department level prior to 2002. Facilities costs were also allocated to business units, but not to departments. Departmental-level costs are the basis for the cost pools used to allocate most common costs. To the extent costs such as facilities are not allocated to departments performing a shared function, they were sometimes not allocated to subsidiaries.

E. **Restructured Lease on the Union (Plaza) Office Facility** - In 2000, NUI entered into a restructured lease with Liberty Hall Joint Venture, a party related to NUI by ownership, which effectively transferred all market risk associated with leasing the facility from Liberty Hall to NUI and extended NUI's commitment to the Union building by 15 years. It is unlikely NUI would have agreed to the lease restructuring as implemented in 2000 with an unrelated party. We estimate that NUI's costs are $2.3 million higher annually as a result of unused space and costs incurred at Union that cannot be recovered from the commercial office rental market. We estimate ETG's share of Union's excess cost is approximately $1.5 million annually.

F. **Rahway Operations Center and Florida Call Center Costs** - Two examples of facilities costs that do not appear to be allocated to benefiting entities include the Rahway operations center and the Florida call center. The Rahway facility is owned by ETG but occupied solely by the New Jersey ASB. The ASB is not charged for the building. The Florida call center is shared by ETG, City Gas Florida and the appliance services business units, but because the facilities costs (costs of the building) are not assigned to the customer service department that occupies it, they are not allocated to the business units that use the building.

G. **Allocated Insurance Costs** - NUI relies on its insurance companies to determine subsidiary allocations of general liability, workers compensation and property insurance. NUI does not maintain support to enable a review of the basis for most of these allocations. As such, NUI does not know how the costs are being allocated.

III. Audit Analysis

A. Attributable Cost Allocation Principles

1. Background

Most regulatory commissions in the United States require utilities to fully distribute, or fully allocate, common costs between regulated and non-regulated activities. To the extent possible, fully allocated common costs should be linked to cost objectives based on causation; that is, subsidiaries should incur a share of common cost proportional to the costs they cause to be incurred. An attributable cost methodology, which attempts to assign and allocate costs based on causation, is guided by the following principles:[1]

- Costs should be directly assigned to cost objectives when possible.
- Costs that cannot be directly assigned should be assigned to homogenous cost pools (groupings of costs that can be logically attributed on a similar basis). When possible, costs in these cost pools should be allocated based on direct analysis of the origin of the costs.

[1] For example, see 47 CFR, Part 64.901.

- When direct analysis is not possible, costs should be allocated based upon an indirect, cost-causative linkage to another category.

- When direct and indirect analysis is not possible (as is the case with certain corporate governance costs, such as Board of Directors' fees), the costs are "residual" and should be allocated based upon the combined ratio of all other costs directly assigned, directly allocated and indirectly allocated.

2. NUI's Allocation Procedures

We divided NUI's common costs into the following categories for analysis.

- Departmental (budget responsibility area) activities costs
- Employee benefits and payroll taxes
- Facilities costs (including building rent, utilities, taxes and upkeep)
- Insurance costs
- Employee benefits costs
- Transportation costs

Most NUI subsidiary cost allocations are the result of a two-step procedure. First, costs are distributed to departments. Most of NUI's direct costs are directly assigned to the department causing them to be incurred. For example, the salaries of employees in each department are directly assigned to the department. Indirect costs, such as employee benefits, should be allocated to departments before being allocated to subsidiaries. Once assigned or allocated to departments, costs can then be allocated to subsidiaries.

NUI's management accounting system is not set up to ensure full allocation of costs to departments. In some cases, NUI assigns costs to business units, but not to the departments within business units. During the audit period some of the costs not assigned to departments were not picked up for further allocation to subsidiaries sharing the cost. For example, it does not appear that the building costs associated with the shared Florida call center were allocated between ETG, City Gas Florida and the appliance businesses that shared the call center.[2]

Following are examples in which NUI used an attributable cost methodology:

- In fiscal year 2002 NUI assigned employee benefits and payroll taxes to departments based on employees.

- NUI directly assigned the facilities costs of shared buildings directly to subsidiaries based on square footage occupied. (However, as described below NUI did not allocate facilities costs for space occupied by shared corporate departments on an attributable basis.)

- Beginning in 2001, NUI allocated the costs of its shared Florida call center (except the facilities costs) between ETG and City Gas Florida based on

[2] OC-29.

customers. In 2002, NUI refined this by basing its allocations on call center call volumes.

- NUI allocated the costs of its Green Lane dispatch function between ETG and the ASB based on customers.

- NUI allocated transportation costs to departments based on vehicles used by each department.

Following are examples in which NUI did not follow an attributable cost methodology.

- Most shared departmental costs (other than shared customer service and dispatch) were allocated using a three-factor formula. The three-factor formula does not provide an attributable basis for cost allocation.

- Facilities costs in space occupied by shared corporate functions (NUI Headquarters functions) were also allocated using the three-factor formula.

- NUI has insurance companies tell it what subsidiaries benefit from shared insurance costs. NUI was unable to provide information showing the insurance companies make their allocation decisions based on an attributable method.

B. Shared Departmental Costs

In 2000, NUI placed departments providing certain functions serving the entire corporation into a separate "NUI Headquarters" (NUIHQ) business unit. NUIHQ departments are summarized below.

Table 3-1
Shared Corporate Services Departments, FY 2002

RC No.	RC Name
281	Purchasing
286	Plaza Building Services
290	Insurance
291	Public Affairs
298	Real Estate Management
301	Marketing Administration
362	Environmental Affairs
401	NUI Executive
412	Treasury
413	Corporate Secretary
414	Corporate Development
415	Investor Relations
470-479	Human Resources (Admin, Employee & Labor Rel, Comp & Benefits, Payroll, Training, North, TIC, FL / NC)
482	Legal & Regulatory Affairs
502-515	Information Technology (Arch & Planning, Infrastructure, Info Mgt, Enterprise, Cust Svc, System Cnslting, Bus.Solutions)
556-571	Accounting (Corporate, Tax, Distribution Svcs Accts Payable)

Source: OC-6

Beginning in 2001, the costs accumulated in these NUIHQ corporate departments were spread among all operating business units. In addition to NUIHQ, selected utility departments were allocated either among the utility business units alone or among the utility and appliance services business units. These are summarized below.[3]

Table 3-2
ETG Shared Utility Departments, FY 2002

Business Unit	NUI Dept No.	Dept. Name	Cost Objectives
ETGCO	167	Gas Control	ETG, CGF, Elkton and North Carolina Gas
ETGCO	217-221, 237	Customer Service, Credit & Collections, Call Center	ETG, CGF, New Jersey, Florida and North Carolina Appliance Businesses
ETGCO	222	Dispatch	ETG, CGF
Source: OC-6			

1. <u>Costs Allocated Using the Three-Factor Formula Methodology</u>

Most of NUIHQ's common departmental costs were allocated to subsidiaries based on a three-factor formula methodology. The three-factor formula is based on an equally weighted average of relative subsidiary labor, plant and customers. Its calculation varies depending on the cost objectives to which individual cost pools are allocated. For example, a "regulated operations" version of the three-factor formula is used to allocate department 571, Distribution Services Accounting. It is based on labor, plant and customers for the utility subsidiaries only.[4]

The three-factor formula methodology is not an attributable cost allocation methodology. It is based on an arbitrarily selected set of size-related factors (NUI uses labor, plant and customers). Because NUI's utilities are capital-intensive and have been accumulating plant for decades and because they have large numbers of customers with relatively small average revenues and contributions to income, the factors NUI includes in its three-factor formula produce higher cost allocations to the regulated utilities than most other equally valid sets of size-based factors. This is illustrated in the table below, which compares the results of allocating NUI's 2002 corporate cost pool using a three-factor formula based on employees, revenues and operating expenses to one using NUI's chosen factors (labor, plant and customers).

[3] NUI Utilities began a transfer, on paper only, of its Florida-based call center employees (Dept 237) from City Gas Florida to ETG in 2001. The transfer was completed by FY 2002. Time did not permit an examination of what effect, if any, this might have had on ETG's overall recorded costs.

[4] NUI refers to a cost that is to be allocated to a subset of corporate business units a "semi-common" cost.

Table 3-3
Variation in Three-Factor Formula Results Using Different Factor Selections
Fiscal Year 2002 Allocations

Factors Selected for 3-Factor Formula	Elizabethtown Allocation		NUI Utilities Allocation		Non-Regulated Sub Allocation	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
NUI's Selected Factors (Labor, Plant, Customers)	$17,248,796	55%	$23,654,899	75%	$7,759,505	25%
An Alternative Set of Factors (Employees, Revenue, Expenses)	13,934,066	44%	19,207,903	61%	12,206,501	39%
Source: OC-7, OC-18, OC-115 and Audit Analysis						

Merely switching to a different set of well-recognized metrics reduces ETG's corporate allocation by 20 percent and increases the allocation to non-regulated subsidiaries by 56 percent. This highlights not only the arbitrary nature of the methodology, but also its ability to serve a results-oriented strategy. In fact, the main appeal of a multi-factor allocation method is that the systematic nature of the calculation makes it defensible, while at the same time its outcomes can be managed through factor selection. Almost any grouping of factors with stable, predictable results can be used and defended. Specific problems with the factors in NUI's three-factor formula include the following:

a. <u>The Historical Plant Factor</u> - Plant is an accumulation of costs incurred in prior years. It has little to do with most corporate activities conducted in the current year. As the oldest and one of the most capital intensive NUI subsidiaries, ETG has decades of accumulated plant costs. With the possible exception of functions such as plant and depreciation accounting, the corporate activities NUI conducts in the current year have little or nothing to do with the plant dollars ETG and other subsidiaries purchased or constructed in past decades. Because accumulated plant is unrelated to the factors that cause most corporate activities to be conducted and because most unregulated subsidiaries are not capital intensive, the use of plant in the three-factor formula contributes to an unbalanced allocation result.

b. <u>The Customer Factor</u> - The unbalanced allocations produced by the customer component of NUI's three-factor formula are best illustrated with an example. In 2002, ETG's customers contributed an average of $453 to operating margin.[5] During the same period NUI Energy Brokers' average customer contributed $183,518 to operating margin.[6] Although an average Energy Brokers' customer contributed over 400 times as much income as an average ETG customer, individual customers in both subsidiaries drew equal allocations of corporate cost. Thus, ETG's 254,000 customers, who contributed $35.2 million to NUI's operating margin, caused the three-factor formula to allocate $5.8 million to ETG, while Energy Brokers' 106 customers, who contributed a not-insignificant $11.8 million to NUI's operating margin, produced a three-factor formula

[5] Based on income and customer statistics provided in OC-115 and OC-7, respectively. Operating margin of $35,224,353 divided by 253,889 customers.

[6] Ibid. Operating margin $11,833,363 divided by 106 customers.

allocation of just $2,400 to Energy Brokers. ETG's customers contributed three times the margin of Energy Brokers' customers, but drew more than 2,000 times the cost allocation.[7] This is not a reasonable outcome, despite the systematic nature of the calculation.

2. Allocation of Customer Services Department Costs

NUI's customer services costs are attributable primarily to NUI's utilities and their appliance services divisions. NUI's non-utility subsidiaries either maintain their own customer service functions or do not need one. NUI's allocation of common customer service costs is an exception to its use of the three-factor formula for departmental costs. NUI refined its approach to allocating customer services costs in each of the audit period years. In fiscal 2000, customer services cost was allocated with the three-factor formula. In fiscal 2001, the methodology was improved as the costs were allocated based on customers. In fiscal 2002, the allocation was refined again. The methods applied in 2002 depended on the functions performed by each customer service department. The costs of the call center (dept. 237), customer relations (220) and the customer service administrative department (219) were allocated based on the number of calls processed for each cost objective (ETG, CGF, the appliance units) by the Florida call center, a method closely approximating relative cost-causation. The costs of credit and collection (218) and customer care outbound (217) were allocated based on relative levels of past-due accounts receivable.[8] The more recent allocation of common customer services costs shows that with some reasonable analysis and a small amount of effort, costs distributed using a non-attributable size-based formula can be converted with relative ease to an allocation based on attributable cost principles.

3. Allocation of Dispatch Department Costs

The majority of NUI's utility dispatch activity is handled at the New Jersey Green Lane location. Green Lane serves both ETG and City Gas of Florida. Its costs are allocated between these affiliates based on utility customers. The allocation to City Gas of Florida began in 2001. NUI maintains separate appliance services dispatchers in Rahway to dispatch appliance service calls. NUI uses customers as a basis for allocating dispatch costs. The customer-based allocation of dispatch is not completely unreasonable, but a methodology based on dispatch activity handled for each subsidiary (either actual calls dispatched or relative amounts of dispatch call time) is preferable to one based on customer counts. For example, most dispatch costs vary indirectly with customer counts, but vary directly with calls dispatched, a measure of dispatch activity.

C. Allocated Facilities Costs

NUI owns and leases buildings throughout its service territory to meet general office, customer service, gas distribution, transportation and other needs. Some of the buildings used by ETG's

[7] The three-factor formula and its customer factor are not used to allocate customer service costs between the utility and non-utility subsidiaries. The allocation of customer service costs cannot be used as a justification for including unweighted customers in the three-factor formula.

[8] NUI refers to the factor developed using relative levels of past due accounts receivable as the "ratio of arrears".

New Jersey operating departments are owned by ETG. The costs of ETG-owned facilities are incurred directly by ETG, rather than allocated. NUI leases eight buildings that are used for multiple purposes, including general office, utility dispatch and payment locations for walk-in customers. ETG is allocated costs of these NUI-leased facilities. These costs include rent, utilities, taxes and building operating and administrative costs.

NUI leases space in large office buildings in Bedminster, New Jersey and Union, New Jersey. These buildings provide a majority of NUI's office space and allocated facilities costs. The Union facility, NUI's largest office building, is leased from Liberty Hall Joint Venture (Liberty Hall), an NUI-related party which is linked by ownership through the Kean family.

NUI uses a two-step process to allocate facilities costs to subsidiaries. First, costs associated with space used by the subsidiaries are allocated based on the square footage occupied by each affiliate. Second, facilities costs for space occupied by corporate departments are allocated along with other corporate costs using the three-factor formula discussed above. Rental income earned by NUI in sub-leasing space to third parties reduces the total cost allocated to NUI business units. Space at both the Bedminster and Union locations is leased to third parties by NUI. As part of our review of common cost allocations, we reviewed the Bedminster and Union leases and the allocations of the costs of these buildings between ETG and other NUI subsidiaries.

1. Union Office Cost Allocations

The Union building at 1085 Morris Ave. (sometimes referred to as the Plaza) is NUI's largest office facility. The entire facility is leased by NUI from related party Liberty Hall. The rent schedule from the lease and the Union building's blueprint indicates that the lease covers approximately 200,000 square feet of space. Of this, approximately 78,000 is sub-leased to third parties, approximately 78,000 is considered to be occupied by NUI, and approximately 44,000 square feet is classified by NUI as unrentable space.[9] Building usage is summarized as follows:

[9] This is primarily ground floor space. Our observation of the building and review of its blueprints shows that a little more than half of the 44,000 square feet is devoted to common building operations, kitchen, cafeteria and lobby space. The remaining space consists of a large, lightly used conference / meeting area and other unclassified ground floor space. The building blueprint designates the unassigned unused space as NUI space. It could be occupied by NUI employees if there was a need or it could be rented to a third-party if there was demand for it.

Table 3-4 **Use of Union Office Facility Space**			
NUI Assigned and Unassigned		**Sublet to Others**	
Tenant	**Sq. Ft. (1)**	**Tenant**	**Sq. Ft.**
NUI HQ and Unoccupied	54,794	Erisco / Trizetta	60,000
ETG	11,825	O'Brien, Liota & Mandel	6,529
UBS	8,250	O'Connor, Morss	2,200
NUI Ventures	1,375	Union Cty Economic Dev.	4,000
NUI Environmental	1,375	Glatfelter Paper	2,829
Unassigned space, including common areas (approx)	44,381	Falk & Fisher	2,154
Total Used by NUI	122,000	Total Sub-let	77,712

Notes:
1. Represents square feet used for cost allocation purposes. NUI is unable to provide workpaper support demonstrating actual occupancy by departments within the building. Internal movement of NUI departments could mean that actual space occupied is different.

Source: OC-7 and OC-42

a. History of the Liberty Hall Lease Arrangement - The Union office building is owned by Liberty Hall, a real estate group composed of Cali Liberty Hall Associates and Enjay Realty LLC. John Kean, Sr., the Chairman of the NUI Board of Directors, is the majority owner of Enjay.[10] The lease agreement between Liberty Hall and NUI should be viewed as an affiliate agreement. It is not an arms-length contract.

Liberty Hall initially entered into lease agreements with ETG and various unrelated parties beginning in 1987. ETG leased 160,000 square feet in 1987. Several third parties with no apparent relationship to NUI, ETG or Liberty Hall leased most of the remaining 40,000 square feet from Liberty Hall during the 1990s. ETG also began sub-leasing some of its 160,000 square feet of leased space to unrelated third parties. As shown above, third-party tenants currently occupy about 78,000 square feet. A lease history of the building is shown in Attachment 3-1.

In April 2000, Liberty Hall and NUI entered into an “amended and restated lease”.[11] The most important changes under the amended lease were the following:

- Extension of NUI’s commitment to the building by 15 years (from 2007 to 2022).
- Assignment of all space in the building to the NUI lease (previously, Liberty Hall had responsibility for 40,000 square feet.)

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[10] OC-22.

[11] OC-42. It remains unclear how NUI could enter into an “amended” lease with Liberty Hall when the 1987 lease was between Liberty Hall and ETG.

By assigning all space to NUI in the 2000 restructuring, Liberty Hall effectively transferred the entire real estate market risk associated with the building to NUI at a time when NUI was beginning to move people out of the building. To the extent NUI cannot sub-lease the space it does not need or recoup its lease and operating costs through market-based rents, NUI must absorb the excess cost that would otherwise have been absorbed by Liberty Hall. As discussed below, this is what has occurred. A majority of the excess cost that NUI cannot recoup from the market is charged to ETG.

Another consequence of the 2000 lease restructuring was to raise the value of Liberty Hall's ownership in the building. Prior to the restructuring, Liberty Hall was at risk for space it could not rent and costs it could not recoup from the market - potentially a majority of the building beginning in 2007. With the restructuring, Liberty Hall has fully leased the building until 2022. Should Liberty Hall decide to sell the building, it will obtain a higher price than it would if a potential buyer had to worry about the comings and goings of various tenants and the market demand for space in the building or the potential loss of the anchor tenant in 2007.

b. NUI Usage of the Union Building - As noted above, since 2000 NUI has all 200,000 square feet of space in the Union building from Liberty Hall. NUI sub-leases approximately 78,000 square feet of this space to other tenants for an average of approximately $29 per square foot annually. This leaves NUI currently responsible for 122,000 square feet. NUI occupies and assigns about 78,000 square feet to its NUIHQ (corporate headquarters) and other business units. NUI's business unit space allocations, which NUI was unable to support, are shown below.

Table 3-5

NUI Union Office Space Usage

Tenant	**Sq. Ft. (1)**	**Number of Employees**	**Space per Employee**
NUI HQ and Unoccupied	54,794	89	615
ETG	11,825	40	296
UBS	8,250	58	142
NUI Ventures and NUI Environmental	2,750	3	917
Total Union Space assigned to NUI business units	77,619	190	409

Notes:
1. Individual business unit amounts are based on unsupported amounts on a spreadsheet supplied by NUI. The total, 122,000, is the difference between the entire building leased to NUI, 200,000, and the total on sub-leases to third party tenants, approximately 78,000.

Source: OC-7 and OC-25

c. Excess Union Building Costs - We estimate NUI spends approximately $2.3 million more annually for the Union facility than it would if it could limit its rent cost to the space it can efficiently use priced at the market rate of $29 currently charged to third-party tenants.

We estimate ETG's share of the excess $2.3 million annual cost is approximately $1.5 million.[12]

NUI's excess cost includes two components. First, NUI pays $45 per square foot (after accounting for third party revenues) for the rentable space it assigns to its own business units. This is approximately $16.50 per square foot (58%) above the market-based rental evidenced by what other tenants pay.[13] Second, much of the space NUI occupies is lightly used. For example, as shown above, NUI assigns the costs of almost 55,000 square feet to a corporate business unit (NUIHQ) with just 89 occupying employees. NUI's overall occupancy is light enough that it provides nearly twice the amount per employee (409 square feet) as the office space NUI occupies in Bedminster (232 square feet).[14] The light usage is due in part to NUI moving employees out of the building to other facilities, including Bedminster and a dispatch center.

Approximately $1.3 million of the estimated excess cost stems from NUI's inability to reconcile its rent and building operating costs with the market rent it obtains from tenants ($16.50 per square foot times 78,000 square feet occupied by NUI's units), while the remaining $1 million is due to NUI's inability to efficiently utilize the space it occupies (409 square feet per employee at Union minus 232 square feet per employee at Bedminster times 190 employees times $29 per square foot market rate). Given the spread between the building's cost and market rent and NUI's declining need for the Union space, it is understandable that Liberty Hall wanted to transfer the tenant responsibilities and market risk to NUI and its subsidiary utilities and lock NUI into these responsibilities for an additional 15 years. Absent its management and ownership relationship with Liberty Hall, it is not clear why NUI would want to enter into this commitment.

2. <u>The Bedminster Office Facility</u>

The Bedminster office facility includes approximately 59,000 "usable" square feet and is currently considered to be NUI's corporate headquarters. Its primary occupants include:

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[12] ETG's share of the excess is estimated based upon NUI's current space allocation workpaper. It includes $562,000 excess cost charged directly to ETG and $913,000 allocated through the three-factor formula.

[13] In 2002, $28.50 was the average rate paid by all third-party tenants paying a market rate evidenced by budgeted income per square foot in the building manager's 2002 budget. It excludes space rented by Union County Development Agency, a non-profit entity which pays a below-market lease rate of approximately $4.50 per square foot (currently being subsidized by NUI and the subsidiaries to which it allocates cost). The market rate includes base rent, escalations for taxes and building operations and tenant contributions to the building's electricity. Almost 80 percent of the third-party space is occupied by Erisco, which currently pays a rate of $22.25 per square foot plus escalations under an 11 year lease signed within 18 months of Liberty Hall / NUI lease restructuring. Erisco's rate rises to $27.30 plus escalations in October 2004.

[14] NUI's own workpaper indicates that the 55,000 square feet assigned to the corporate level (and allocated to the utilities) includes "unoccupied" space, although it does not indicate or contain support for how much of the space is unoccupied.

- NUI's corporate departments (the NUIHQ Division departments discussed above)
- NUI Energy Services
- NUI Energy Brokers
- NUI Telecom
- TIC
- ETG

During the audit period NUI sub-let approximately 20,000 square feet to Verizon at the Bedminster office location. The total cost allocated to affiliates is reduced by the Company's rental income from Verizon, approximately $650,000. After accounting for rental income, NUI pays about $24 per square foot for the space it occupies in Bedminster, including utilities. The Bedminster facilities are much more reasonably priced than the Union facilities.

3. <u>General Problems with Facilities Cost Allocation Control and Support</u>

NUI's assignment of costs to business units based on square footage is reasonable. However, we found a number of general problems with NUI's facilities cost assignment and allocation processes. These are summarized as follows:

a. <u>Lack of Systematic Procedures and Support</u> - At best, NUI's procedure for maintaining records of the usage of its facilities by various regulated and non-regulated business is ad hoc. In the Union facility, for example, there are no workpapers to support the business unit space assignments. There are no written procedures describing how space should be allocated. There is no support to explain the rationale or basis for changes in business unit square footage assignments from one year to the next. There are no controls to ensure that space allocations will be reviewed and corrected when departments or business units move within or out of the building.

b. <u>Union Building Space Not Charged to UBS</u> - Even without support, we identified what appears to be a problem with space assigned to UBS at the Union building. During our tour of the building, it appeared that UBS took up approximately two-thirds of the space on the west side of the fourth floor. At 20,000 rentable square feet per floor side, this amounts to approximately 13,000 square feet. UBS also occupies space on the first floor for its customer information system (Wins CIS) computer and its bill inserter and mailing equipment. In 2000, UBS was charged for only 8,250 square feet. This amounts to 142 square feet per employee for UBS's 58 employees in a building in which the average NUI employee is assigned more than 400 square feet per employee. Given its computer and billing operations, UBS's usage should exceed the average. We believe UBS's actual space usage at Union was approximately double what it was assigned and charged for in 2002.

c. <u>Rahway Space Not Charged to New Jersey ASB</u> - ETG owns the Rahway building dedicated to the New Jersey ASB unit. It appears that ETG did not charge the ASB for its use of the building. We do not have the data necessary to determine the value of the building that should have been charged.

d. <u>Call Center Space Not Charged to ETG or New Jersey ASB</u> - The facilities costs of the Florida call center were not allocated between ETG, City Gas Florida and the New

Jersey and Florida appliance businesses that use the center. We do not have the data necessary to determine the value of the building that should have been charged.

D. Allocated Insurance Costs

NUI breaks down its insurance allocations into five cost pools based on type of insurance (general liability, workers compensation, property, travel and claims for actual injury and damage). It relies primarily on its insurance suppliers to determine what amounts should be allocated to its affiliates. According to the accountants responsible for making the allocations, NUI receives letters or statements from its insurance providers that summarize the premium breakdown by state (for property insurance) or by affiliate. Insurance costs not allocated to affiliates by insurance providers are allocated via the three-factor formula. The majority of insurance costs relate to general liability and workers compensation coverage. The analysis below focuses on this coverage as well as property insurance coverage.

1. General Liability Insurance

The allocation of general liability insurance costs is based on information provided by AEGIS, the Company's insurance provider. AEGIS invoices are used by NUI to determine how much of the premiums relate to each affiliate and, in turn, the allocation percentages for each affiliate. Of the total general liability cost charged to business units, we were able to clearly identify only the amounts charged to ETG and City Gas Florida. Some costs were allocated to Pennsylvania and Southern Gas while other costs were allocated to "non-utility." It is not clear which NUI subsidiary is represented by Pennsylvania and Southern Gas and which of are represented by the designation "non-utility." There is nothing available to support the amounts designated for ETG, City Gas and the "non-utility" category. Without support, we were unable to evaluate the basis for or reasonableness of general liability insurance allocations.

2. Workers Compensation Insurance

The distribution of workers compensation insurance costs is based on an insurance company analysis of "amounts attributable" to each affiliate. The insurance provider, Wausau, bases its premium breakdown "on payrolls and the amount of such payroll in each workers compensation class." NUI represents that no documentation exists to support the business unit allocations of workers compensation and we were therefore unable to audit them.[15]

3. Property Insurance

Property insurance allocation percentages are determined based on information provided to NUI by its insurance provider. The insurer, Sedgwick of New York, Inc., sends a letter that breaks down the coverage by city (and building if more than one building is insured in the same city). Based on where the buildings are located, the Company allocates the applicable amount to each affiliate. In theory, the insured buildings or other property located in New Jersey would be allocated to each affiliate that receives a benefit from those buildings. However, it appears that this is not the case. Instead of allocating New Jersey-directed property insurance based on building usage, NUI charges the entire cost to ETG, resulting in an over-allocation to ETG and an under-allocation to all of the other affiliates that use New Jersey facilities.

[15] OC-58 (b).

E. Allocated Employee Benefits

NUI employee benefits costs are administered for all business units by CGI, a third-party benefits administrator.[16] Among its responsibilities, CGI calculates an estimated average benefits cost per employee. The benefits cost per employee is used to determine a loading factor to be applied monthly to labor costs. In 2002, the loading was 20 percent. The labor loading methodology employed by NUI is reasonable given that the same general package of benefits is available to all NUI employees (except TIC employees in Atlanta, who were not charged under the loading factor[17]).

F. Allocated Transportation Costs

Most vehicles used by NUI are leased. Vehicle lease and other transportation costs are collected in responsibility area 103. Transportation costs are allocated to business units located in New Jersey based on the number of vehicles under each affiliate's control. A vehicle-based allocation for transportation costs is reasonable and should come close to charging business units for the relative shares of total transportation cost they cause.

[16] OC-118.

[17] Except for employees at TIC, who were not consolidated into NUI until 2001 and who were mostly gone by the end of fiscal year 2002. It is Overland's understanding that TIC employees did not participate in NUI benefit plans and were not included in the benefits allocation base.

1085 Morris Avenue (Union Facility) Lease History						
Lessor	Lessee	Lease Description	Dated	Term	Square Footage	Comments
Liberty Hall Joint Venture	Elizabethtown Gas Company	Master	8/17/1987	20 years (dates not provided in lease document	160,000	
Elizabethtown Gas Company	O'Brien, Liotta & Mandel	Sublease	5/17/1990	5 years (dates not provided in lease document)	6,529	
Liberty Hall Joint Venture	P.H. Glatfelter Co.	Lease	11/19/1990	1/25/91 - 1/24/96	2,829	
Liberty Hall Joint Venture	Erisco, Inc.	Lease	4/16/1992	6/1/92 - 10/31/99	21,639	
Elizabethtown Gas Company	Union County Economic Development Company	Sublease	2/8/1993	month to month until terminated by either party	not provided in lease document	
Liberty Hall Joint Venture	P.H. Glatfelter Co.	Lease (1st Amendment)	6/13/1995	1/25/96 - 1/31/01	2,829	lease renewal
Liberty Hall Joint Venture	Erisco, Inc.	Lease (1st Amendment)	3/14/1996	5/1/96 - 5/31/99	5,496	additional space beyond the original 21,639 square feet
Elizabethtown Gas Company	Falk & Fisher	Sublease	8/26/1996	8/26/96 - unknown	1,408	
Liberty Hall Joint Venture	Falk & Fisher	Lease (1st Amendment)	10/7/1996	10/1/96 - 9/30/01	2,154	1st amendment states that original sublease was signed on 8/22/96 for 2,154 square feet; this disagrees with the original sublease information as listed here
Liberty Hall Joint Venture	Erisco, Inc.	Lease (2nd Amendment)	11/15/1996	6/1/99 - 10/31/00	6,492	additional space beyond the original 21,639 and additional 5,496 square feet
Elizabethtown Gas Company	Erisco, Inc.	Sublease	3/6/1998	8/1/98 - 8/31/09	60,000	
Liberty Hall Joint Venture	Erisco, Inc.	Lease (3rd Amendment)	10/12/1998	11/1/99 - 8/31/09	33,627	includes extensions of the original 21,639 square feet as well as the 5,496 and 6,492 square feet
Liberty Hall Joint Venture	NUI Corporation	Amended and Restated	4/28/2000	4/28/00 - 4/30/22	200,000	
Elizabethtown Gas Company	O'Connor, Morss & O'Connor, P.C.	Sublease	not dated	5 years (dates not provided in lease document)	2,200	
Source: OC-42 and OC-146						

1085 Morris Avenue (Union Facility) Assignment Letter History			
Letter Sent By	Letter Recipient	Dated	Comments
Liberty Hall Joint Venture	Falk & Fisher	4/28/2000	the letter notes Liberty Hall Joint Venture's assignment of its lease with Falk & Fisher to NUI Corporation
Liberty Hall Joint Venture	P.H. Glatfelter Co.	4/28/2000	the letter notes Liberty Hall Joint Venture's assignment of its lease with P.H. Glatfelter to NUI Corporation
Liberty Hall Joint Venture	Erisco, Inc.	4/28/2000	the letter notes Liberty Hall Joint Venture's assignment of its lease with Erisco, Inc. to NUI Corporation
Source: OC-42			

Chapter 4 - NUI Appliance Services

Chapter 4 - NUI Appliance Services

I. Introduction

This chapter covers Elizabethtown Gas's (ETG's) competitive appliance services business (ASB). Through the ASB, ETG provides appliance service contracts, appliance maintenance and repair and appliance installation services to customers in its gas service territory. These services are classified as "competitive" and are subject to the BPU's Affiliate Standards. Because the appliance business continues to be owned by ETG, the utility, rather than NUI, the holding company, the ASB's services remain subject to tariff.

II. Summary of Audit Findings

A. **Functional Separation** - During the audit period ETG separated appliance and utility service technicians into different departments. ETG moved a majority of appliance service technicians to a separate operations center in Rahway. Although the ASB is a separate business unit, it continues to use certain utility functions, including customer service, billing, remittance, credit, collections and dispatch. During the audit period, appliance service departments continued to provide utility services; however, the level of utility services declined from $1.3 million in fiscal year 2001 to $279,000 in 2002, indicating a significant decrease in shared appliance and utility work by ASB employees. Assuming utility work conducted by the appliance departments continues to decline, steps taken during the audit period have achieved an acceptable degree of functional separation between appliance and utility work.

B. **Management Separation** - The New Jersey and Florida ASB units have a manager reporting to an executive of NUI Corporation. There are no management employees directly responsible for regulated gas utility operations who also have line responsibility for appliance services.

C. **Accounting and Asset Separation** - New Jersey ASB is a separate business unit for accounting purposes. ETG maintains a separate set of financial books and affiliate transactions are treated as though ASB is a legally separate affiliate. One key asset dedicated to ASB - the Rahway appliance operations center - remains on ETG's books.[1]

D. **Rahway Operating Center Costs** - The market value of renting the Rahway facility owned by ETG does not appear to have been billed to ASB, which had exclusive use of the facility during the audit period.

E. **Entity-Level Cross-Subsidization** - The New Jersey ASB did not have sufficient revenues to recover its costs in 2001 or 2002. The ASB's net operating losses, $1.3 million in 2001 and an estimated $800,000 in 2002, represent a cross-subsidy of ASB by NUI Corporation shareholders. ETG's apparent failure to charge the ASB for its use of an ETG-owned facility in Rahway is a cross subsidy of the ASB by ETG. We do not have the information necessary quantify this cross-subsidy. Any common costs under-allocated to the ASB and over-allocated to ETG as a result of NUI's reliance on a three-

[1] OC-44.

factor formula represent a cross-subsidy of the ASB by ETG and its ratepayers and possibly by NUI and its shareholders. We do not have the information necessary to verify or quantify this cross subsidy.[2]

F. **Floor Prices** - NUI's calculations of the appliance unit's floor prices appear to understate the appliance business's fully allocated costs. We conservatively estimate audit period fully allocated cost per productive appliance service hour to have been between $130 and $150 per hour, including appliance parts, and between $114 and $133 per hour excluding parts, based on actual operating expenses recorded on ASB books. Actual fully distributed costs are probably higher due to under-allocation of certain common costs to the ASB. Tariffed appliance service contract rates (which generally include parts costs) are based on floor prices of $112 per hour, well below full allocated costs. However, floor price calculations for "chargeables" work (for which are generally charged separately) appear to cover fully allocated hourly costs.

G. **ASB Profitability** - Given the present demand characteristics of NUI's appliance services market, and NUI's employee productivity, it may not be possible for NUI to recover its fully allocated cost of providing appliance services. In other words, with all common costs properly allocated to ASB, it may be difficult or impossible under current circumstances for the ASB to operate at a profit given its cost structure and the demand for appliance services in ETG's service territory.

H. **Competitive Advantages / Disadvantages** - NUI's appliance services unit has several advantages over smaller competitors. These include affiliation with the utility and its recognized name, economies of scale, access to the utility's billing envelope and as a selection option on the utility's automatic call router. There are also competitive disadvantages, including negative impressions some people may have of the utility, NUI's restriction to tariffed rates, incurrence of certain corporate overhead costs associated with the utility holding company, and possibly the ASB's productivity.

III. Audit Analysis

A. Operating and Financial Summary

ETG provides appliance service contracts, appliance maintenance and repair and appliance installation services to customers in its gas service territory. Beginning in fiscal year 2000, NUI began placing technicians providing appliance services into a separate ASB unit. In 2002 ASB hired customer service employees dedicated to appliance service operations. Currently, a majority of the appliance service employees in New Jersey work from a Rahway facility dedicated to appliance services. Key changes in ASB during 2001 and 2002 included the following:

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[2] This would require attributable cost studies of the all utility and corporate functions serving the ASB. By allocating shared customer service based on customer calls in 2002, NUI made some progress in eliminating the potential for mis-allocation to ETG. A 66 percent increase in the ASB's inter-departmental charges (from $1.2 million in 2001 to 2.0 million in 2002) also suggests progress. However, NUI continues to allocate corporate costs using size-based factors such as plant. In the ASB's case, truck are leased; thus they draw no costs from the plant factor, while the ASB's operating facility in Rahway is owned by ETG, actually causing the plant factor to draw corporate costs to ETG instead of the ASB.

- The ASB Vice President, Rand Smith, left the company and was not replaced.

- Tom Rumely, the New Jersey appliance Customer Services Manager in 2000 and 2001, was made responsible for all NUI appliance services operations in 2002. Currently, several management levels separate Mr. Rumely, a Manager, from Mark Abramovic, NUI's COO and CFO Mark Abramovic, to whom he reports.

- The number of New Jersey appliance service technicians declined by half between 2001 and 2002, from 54 to 27. Of the 27 appliance technicians removed from the appliance services department, 25 were transferred to gas utility "responder" positions, 1 became a gas utility "compliance technician" and one left the company.

- In 2002 the New Jersey ASB business unit hired customer service representatives to be dedicated to New Jersey appliance operations. There were 10 customer service reps at the date reflected in employee data provided.

Following is a summary of ASB operating results for 2001 and 2002.

Table 4-1
NUI New Jersey Appliance Services
Summary of Financial Results

	2001	**2002 (est.) (1)**
Contract Revenue	$3,351,345	$3,789,960
Time & Material Revenue	2,765,861	3,204,074
Merchandising Revenue	448,503	468,943
Utility Services Revenue	1,303,065	334,577
Total Revenue	7,868,774	7,797,534
Cost of Sales (Direct labor, fleet, parts)	8,212,609	6,800,322
Selling, General and Administrative	392,680	298,462
Interdepartmental Charges (Allocations)	1,217,500	2,025,062
Depreciation, General Taxes	77,340	13,904
Total Operating Costs	9,900,129	9,137,750
Operating Income	(2,031,355)	(1,340,216)
Interest	179,773	
Income Before Tax	(2,221,129)	(1,340,216)
Income Tax	(903,284)	(536,086)
Net Income	$(1,307,845)	(804,130)

Note 1: 2002 amounts are annualized using 10 months actual data through July. Complete FY 2002 data was requested but not received.

Source: OC-50, OC-20 and Audit Analysis

B. Organization

1. Legal Organization

During the audit period NUI ASB conducted operations in New Jersey, Florida and North Carolina. For legal purposes, ASB is a division of NUI's utilities in New Jersey, Florida and North Carolina. As a division of ETG, New Jersey ASB is subject to Section 6 of the Affiliate Standards (which contains rules applicable to competitive segments owned by a utility).

2. Functional Organization

During the audit period, NUI ASB consisted of the following business units and departments:

Table 4-2
NUI Appliance Services - Departmental Structure

Business Unit	Dept No.	Department	2000 Employees	2001 Employees	2002 Employees
ABFLS	224	Florida ASB	42	36	35
ABNJS	225	New Jersey ASB	79	76	54
ABNCS	226	North Carolina ASB	5	5	5
ABFLP	227	Florida Plumbing Services			5
ABNJS	231	ASB Gen & Admin	3	3	1
		Total	129	120	100

Source: OC-25

The New Jersey ASB unit included the following positions:

Table 4-3
NUI Appliance Services - New Jersey Organization

	Employees		
	2000	**2001**	**2002**
Appliance Svc Vice Pres (Rand Smith)	1	1	0
Appliance Svc Manager (Tom Rumely)	0	0	1
Support Supervisors	0	0	2
Cust Service Reps	0	0	10
Rahway Operations			
Cust Svc Mgr (Tom Rumely)	1	1	0
Service Coordinators	3	3	1
Field (Cust Svc) Supervisors	4	3	2
Service Technicians	57	54	27
Northwest Operations			
Field (Cust Svc) Supervisors	1	1	1
Service Coordinator	1	1	0
Service Technicians	7	8	10
Flem Operations			
Field (Cust Svc) Supervisors	1	1	1
Service Technicians	4	4	3
Total New Jersey ASB Unit	80	77	54
Source: OC-25			

C. Separation From the Utility

1. Functional Separation

Appliance services were traditionally provided by utility company service technicians. The utility technicians responded to customer service calls involving problems with gas service and appliances. NUI began separating appliance and utility service technicians into separate groups 1999.[3] In 2000, separate appliance service departments were established.

An analysis of employee lists and financial results shows that New Jersey ASB employees performed both utility and appliance services during the audit period. In 2002 NUI transferred approximately half of its New Jersey ASB Technicians from the ASB unit to ETG. Along with the transfer, ASB revenues from ETG dropped from $1.3 million annually to $350,000. As such, 2002 marks the effective separation of most appliance and utility service activities.

During the audit period NUI maintained a separate appliance services operations center in Rahway. The facility is owned by ETG and is recorded on ETG's balance sheet.[4] In 2002 this

[3] Interview notes, Tom Rumely, October 11, 2002.

[4] OC-44.

facility housed 43 of ETG's 54 appliance service employees. The remaining 11 employees (primarily technicians) remain based in Northwest Region ETG facilities.

2. Management Separation

In 2000 and 2001, NUI's Appliance Business was managed by Rand Smith, Vice President of ASB. When Mr. Smith left, his position was left open. The corporate appliance services function is currently managed by Tom Rumely, an employee of NUI's ASB. Another manager assists Rumely in overseeing NUI's Florida appliance service operations. Mr. Rumely has no responsibility for ETG's regulated utility operations. In 2002, he reported to Mark Abramovic, a corporate executive, rather than to an executive of the utility.

3. Accounting Separation

NUI maintained a separate set of books to account for appliance services operations throughout the three year audit period.

4. Physical Assets

A Rahway facility dedicated to ASB remained on ETG's books. The ASB's vehicles are leased by ETG and their costs are allocated.

5. Information and Information Systems

NUI's ASB relies on NUI's utility customer accounts system.[5] Although there are separate utility and appliance service customer account screens, the utility and appliance service units share the same customer account number.[6] As a Division of the utility, ASB is not required to implement controls to separate the utility and appliance side of customer records, or to prevent ASB unit employees from accessing the accounts of utility customers who do not currently have appliance services.[7]

D. Affiliate Transactions - Services Provided to ASB by NUI Corporation and ETG

1. Shared Corporate Services

By 2002, NUI had separated most of its key New Jersey appliance service operating functions from ETG. However, NUI's ASB and its New Jersey business unit continue to rely on NUI Utilities to provide some customer services and credit and collection requirements. The New Jersey ASB derives a benefit from utility rate and regulatory services, from corporate public and

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[5] OC-32.

[6] Interview notes, Tom Rumely, October 11, 2002.

[7] Because the ability to access utility customer information, particularly for customers who do not have appliance services, provides a significant competitive advantage, in a followup data request (OC-144) we asked NUI whether it currently has controls in place to prevent ASB from accessing customer information from the regulated (non-competitive) side of ETG's customer accounts.

municipal affairs, executive, governance, treasury, legal and investor services and from centralized purchasing, marketing, accounting and information technology functions. The shared benefits of most (but not all) of these services are recognized in NUI's cost allocation system; however, in most cases, the cost charging and allocation methodologies for corporate services, which rely heavily on a "three-factor formula," are not appropriate. Cost charging and allocation methodologies are discussed in Chapter 3. The table below summarizes shared utility and corporate services.

Table 4-4
New Jersey Appliance Services Shared Corporate and Utility Services

Shared Functions / Services	FY 2002 Cost Allocation Procedures		
	Depts / RCs Providing Service	Shared Benefits Recognized?	Cost Charging Methods Appropriate?
Shared Utility Services (1):			
Customer Service, Credit and Collections, Billing	217, 218, 219, 220, 237	Yes	Yes
Dispatch	222	Yes	Yes, but could be improved
Rates and Compliance, Rate Case	169, 363	No	-
Strike Prep	168	No	-
Shared Corporate & Centralized Services (1):			
Purchasing	281	Yes	No
Building Rent and Real Estate Management	286, 298	Yes	No
Insurance	290	Yes	No
Public Affairs	291	Unknown	Unknown
Municipal / State Affairs	292	No	-
Marketing Administration	301	Yes	No
Executive	401	Yes	No
Corporate Development	414	Unknown	Unknown
Treasury, Secretary and Investor Relations	412, 414, 415	Yes	No
Human Res., Compensation, Training, Payroll	470	Yes	No
Legal & Regulatory Affairs	482	Yes	No
Information Technology	502, 03, 05,07, 10, 12, 14	Yes	No
Corporate, Tax, Cust Svc Accounting Accts Payable	556, 557, 561, 563	Yes	No

Notes:
1. Includes functions directly providing a service to the NJ ASB unit and corporate functions from which NJ ASB and other NUI business units derive a general benefit.

Source: OC-6 and Audit Analysis

2. Shared Utility Customer Service, Credit and Collections

NUI maintains a call center in Florida that provides customer service for the New Jersey and Florida utility and appliance businesses. Call routers at the Florida call center and in New Jersey include menus to induce customers identify the nature of their calls. Among the menu selections are appliance repair. Call categorization based on customer menu selections is the basis for allocating costs from the Florida call center function.[8] We tested the menu selections of the call router receiving calls from one New Jersey “800" number and found the selections enabled the appropriate separation and routing of utility and appliance service calls.

New Jersey ASB recently hired its own customer service representatives (CSRs). Calls from New Jersey customers for which an appliance services option is selected are now routed from the Florida call center to CSRs at Rahway. NUI represents that when customers make an incorrect menu selection and Florida customer service representatives determine that a call relates to New Jersey appliance services, the caller is transferred to Rahway.

3. Rahway Operating Center

ETG owns the Rahway operations center dedicated to appliance services. We asked for evidence showing that ASB pays ETG for the use of the facility. It does not appear that ASB paid for use of the Rahway facility during the audit period. To the extent ASB does not pay ETG for Rahway, the market rental value is a cross-subsidy of the ASB by ETG.

E. Marketing and Promotion

1. Joint Marketing Services

At the end of the audit period, ASB marketing was the responsibility of Tom Rumely, the manager in charge of ASB and Mylene Arza, a Project Manager in NUI’s Marketing Administration department. NUI’s cost allocation matrix indicates that Ms. Arza’s department serves NUI as a whole. Mr. Rumely and Ms. Arza jointly produce the New Jersey ASB Marketing Plan. Our review of the 2002 plan revealed the following interaction between regulated utility operations and competitive appliance service operations with respect to marketing:

- Use of utility bill inserts as an advertising device (Strategy #1, action item #2).
- Coordination between ASB and NUI Utility Marketing and Sales to help ASB become “installing contractor of choice for NUI utility conversions.” (Strategy #5, action item #1)

2. Utility and Corporate Brand Association

Because it is legally a competitive services segment of ETG, ASB is permitted to use the gas utility’s name in promoting its services. The logo featured in most appliance services advertising is as follows:

NUI **Elizabethtown Gas**

[8] However, as discussed in Chapter 3, call center facilities overheads are not all appropriately allocated.

F. ASB Profitability, Pricing and Cross-Subsidization

1. Entity-Level Profitability

The most basic test of whether ASB is being cross-subsidized is whether it is profitable. If the business unit does not at least break even, some other entity in the corporate structure is, by definition, subsidizing it. As shown in Table 4-1, ETG's ASB unit lost an amount equivalent to one-fourth of its revenues in 2001. If NUI's common costs had been fully allocated in 2001, losses would have been higher. Even though common cost allocations nearly doubled in 2002, losses declined, mostly because the utility took back 27 appliance services technicians. Based on this, we can make the following observations:

- ASB prices did not cover its costs in 2001 or 2002. Because NUI had to make up the difference between ASB's revenues and costs, NUI's shareholders subsidized ASB to the extent of its accounting losses. Thus, NUI shareholders cross-subsidized approximately \$2.2 million, less tax benefits, in 2001 and approximately \$350,000, less tax benefits, in 2002.

- ETG cross-subsidized ASB to the extent that it recorded costs on its books that should have been recorded on ASB's books. For example, the rental value of the Rahway appliance center does not appear to have been reflected on ASB's books. ETG owns the facility; as such, the failure to record an affiliate transaction reflecting lease revenue on ETG's books and lease expense on ASB's books is an ETG cross-subsidy. Common corporate costs improperly allocated to ETG instead of ASB also represent a cross-subsidy by ETG.

It is interesting to note that NUI's cross-subsidy of ASB declined in 2002 primarily because the costs of 27 appliance services technicians were transferred back to the utility.

2. ASB Pricing

To review the ASB's pricing we compared an audit estimate of fully allocated cost per hour to the NUI's ASB "floor price" calculation (used to justify tariffed appliance service prices) and to hourly prices in the appliance services tariff itself. Based on this analysis, it appears that NUI's floor price calculations somewhat understate fully allocated costs.

a. Audit Estimate of Fully Allocated Hourly ASB Cost - We estimated ASB hourly cost per productive hour as a basis for assessing ETG's floor price calculations. Our audit estimate, summarized below, is based on ASB actual costs shown on financial statements. Because the financials exclude certain costs that were not properly charged to appliance services (such as the Rahway facility ETG did not properly charge to the ASB) and because the income statement excludes a capital cost component for return on investment, we believe our audit estimate to be a somewhat conservative (low) estimate of fully allocated cost per hour.

Table 4-5
NUI New Jersey Appliance Services
Audit Calculation of New Jersey Appliance Service Fully Allocated Cost Per Appliance Service Technician Hour

	2001	2002
Total Operating Expenses (Per financial summary above) (1)	$ 9,900,129	$ 9,137,750
Subtract Parts Expenses (per Trial Balance analysis)	1,224,716	1,098,132
Total Expense Attributable to Labor (assuming no parts markup)	$8,675,413	$ 8,039,618
FDC Cost Factors (Source for employees: OC-25)		
Estimated average "hands on" HS employees (2)	53	42
Estimated average weeks on the job per employee	48	48
Actual days per week	5	5
Estimated productive (on-site, non-drive time, non-break) hours per day per employee	6	6
Estimated annual revenue-generating service hours, (employees x weeks x days x productive hours / day)	76,320	60,480
Estimated fully allocated cost per technician service hour (based on recorded costs, 10 mos. annualized in 2002) Compare to service contract floor price per hour	$ 129.72	$ 151.09
Estimated fully allocated cost per technician service hour attributable to labor (parts costs removed) Compare to "chargeables" work price per hour.	$ 113.67	$ 132.93

Notes:
1. 2002 operating expense is estimated based on 10 months actual financial results.
2. "Hands on" employees are service technicians whose efforts generate appliance service revenue. In 2001, NUI was in the process of transferring approximately 27 appliance service technicians to "responder" positions at ETG. As such, our estimate of average 2001 "hands on" employees is based on an average of 2001 and 2002 force levels from data provided in OC-25.

Sources: OC-25, OC-50.

b. NUI's Floor Price Calculations - Floor prices are the minimum prices NUI is permitted to charge for tariffed appliance services. They should be based on the "fully allocated cost" of providing appliance services. ETG's New Jersey appliance service floor price calculations lacked underlying support for amounts and assumptions. In addition, we found the calculations to be flawed. Instead of beginning with a cost figure that includes all recorded ASB costs, ETG attempts to "build up" an hourly cost and service contract calculations based on a set of assumptions. Much as a person who tries to calculate his income by adding up what he spent is likely to find it difficult to reconcile the result to his paycheck, ETG's method of estimating fully allocated prices does not appear to capture all of the costs embedded in providing appliance services.

One set of ETG floor price calculations, used for service contract prices, estimates fully allocated hourly appliance services cost to be $104.94. A set of assumptions (unsupported by workpapers or explanations) concerning the time required to conduct maintenance and repairs covered by service contracts is used to translate this amount into service contract prices. A second set of floor price calculations estimates fully allocated New Jersey hourly appliance service cost to be $112.00. Neither set of calculations appears to give proper consideration to a full complement of direct and indirect costs.

c. Tariffed ASB Contract Rates - The table below compares service contract rates advertised on NUI's website to service contract floor prices. These floor prices are based on an hourly rate of $112. In some cases, the website indicates NUI is charging less than the amount required even by its own understated floor price. However, the differences between the rates charged and implied by the floor prices are not significant.

Table 4-6
NUI New Jersey Appliance Services
Comparison of Actual Tariffed Rates and Floor Prices

Service	Price per NUI Website	Price Per Floor Price Calculation
Comfort Care Basic		
Furnace/Boiler	$60.00	$60.00
Furnace/Boiler and Water Heater	$69.99	$69.99
Central Air Conditioning	$120.99	$84.00
Furnace/Boiler with Preventative Check	$111.00	$99.99
Furnace/Boiler and Water Heater with Preventative Check	$120.99	$109.98
Central Air Conditioning with Preventative Check	$120.99	$123.90
Comfort Care Plus		
Furnace/Boiler and Central Air Conditioning	$119.25	$119.88
Furnace/Boiler, Central Air Conditioning, and Water Heater	$132.21	$131.88
Furnace/Boiler, Central Air Conditioning, Water Heater, and Two Major Appliances	$162.72	$179.88
Furnace/Boiler and Central Air Conditioning with Preventative Check	$157.50	$179.88
Furnace/Boiler, Central Air Conditioning, and Water Heater with Preventative Check	$170.37	$189.84
Furnace/Boiler, Central Air Conditioning, Water Heater, and Two Major Appliances with Preventative Check	$209.97	$237.84

Note: The prices for the Comfort Care Plus services listed on NUI's website appear to be mislabeled and have been corrected for presentation in this table.

Source: OC-47 and Audit Analysis

3. Tariffed Time and Materials (Non-Contract) Labor Rates

The most significant source of appliance service revenue other that service contract revenue is time and materials, or “chargeables” revenue. Tariffed rates for “non-contract appliance services” applicable , converted to an hourly basis, are as follows:

Table 4-7 **New Jersey Appliance Services Tariffed Rates for Non-Contract Appliance Services**	
Tariff Service Classification - Non-contract appliance services	**Rates per Hour**
First Appliance, Regular business hours	$150.00
Second Appliance same visit	$ 88.00
First Appliance, After business hours	$195.00
Second Appliance same visit	$148.00
Source: ETG Tariff, B.P.U. No. 13 - Gas, Section III, Original Sheet No. 10. Effective on and after November 22, 2002.	

As shown in the table above, comparable audit estimates for costs attributable to technician labor are $113 for 2001 and $133 for 2002.[9] As such, it appears that the tariff's rates for non-contract work are high enough, on paper, to avoid cross-subsidization. However, we do not know whether "chargeable" jobs were actually billed based on these rates. For example, if technicians make it a practice to bill less than the actual time it takes to complete a repair, the *realized* hourly labor rate will be lower than tariffed rates shown above (and potentially below fully allocated cost). The fact that New Jersey ASB lost money during the audit period indicates a possibility that billing rules for chargeable services may not always have been followed, but we are unable to draw any firm conclusions.[10] Audit period losses may also have been due to low productivity (too many technicians relative to billable work). If this is the case, our audit estimate of fully allocated cost per productive hour may be understated.

G. Analysis of Competitive Market Advantages and Disadvantages Associated with Utility Affiliation

1. Competitive Advantages

a. Utility Brand Affiliation - The ASB unit's association with the gas utility, directly promoted through advertising, provides ETG's appliance unit with a competitive advantage over smaller, lesser-known appliance service providers. Affiliation with the utility is likely to inspire a higher degree of customer trust. Apart from the higher level of trust that utility association inspires, the utility name itself has name recognition value. It is not

[9] Parts should be separately charged for on non-contract (chargeables) work. It is necessary to remove parts costs to obtain a fully allocated hourly rate for labor only.

[10] However, the NUI ASB's 2002 Marketing Plan, under the heading "Time and Material Service Work" contains the action item "Ensure technicians are pricing correctly (periodic checks)." If nothing else, this demonstrates that NUI feels that the proper application of tariff prices by appliance service technicians is a concern. There is no practical way in the context of a regulatory audit to verify whether the tariff pricing rules are correctly applied. An auditor could accompany technicians and compare the time they spent on the job to the time they charged, but this would be unlikely to uncover undercharging or other billing irregularities if it was occurring.

unreasonable to expect that nearly all adults living in ETG's service territory recognize the gas utility's name. New Jersey ASB does not currently compensate ETG for use of the brand. Certain nationally-recognized retailers are likely to have brand recognition and trust similar to the utility.

b. Economies of Scale - The size of ETG's service territory, encompassing several hundred thousand customers, provides ETG the ability to extract economies of scale that competitors with smaller geographic footprints cannot attain. The appliance unit's ability to share centralized utility functions such as dispatch and customer service provides a significant cost advantage over smaller competitors. However, certain large retailers may have economies of scale equivalent or possibly exceeding those of the utility.

c. Access to the Utility's Billing Envelope - During the audit period ASB used the utility's billing envelope as its primary advertising tool. The ASB's exclusive access to the utility's billing envelope provides a significant competitive advantage in reaching potential customers. The cost per potential customer of inserting appliance service advertising into utility billing envelopes is minimal.[11] Beginning with the postage, the costs smaller competitors would face to attain the same household reach are much higher and potentially prohibitive. However, large diversified retail competitors may have the ability to advertise by piggybacking appliance advertising onto other mailings, as ETG does.

d. Access to the Utility's Customer Service Function and Information System - The ability to tap into a fully staffed utility customer care function and an established customer service information system is also a competitive advantage. When gas appliance owners have problems with heat (either their homes or their water), they may make the gas utility their first call. When they do, ETG's call router presents a series of options, one of which is appliance services. Competitors are not presented as a selection option on the ETG call router. With respect to the cost of conducting customer operations, although the ASB unit pays a usage-based share of most customer service costs, it did not have to pay the costs of setting up the customer service function or developing customer service information system software.[12] For several reasons, including a lack of scale economies, a smaller competitor would, in most cases, find a similar customer service function to be either more expensive, if not unaffordable.

2. Competitive Disadvantages

a. Utility Affiliation - There are individuals who resent utilities because of their monopoly status or because they have had bad experiences with the utility company. In these cases, ASB's affiliation with the utility could represent a competitive disadvantage. On balance, however, brand identify clearly presents an advantage, not a disadvantage.

[11] The costs amount to some marketing labor to develop the promotional material, some printing costs and possibly some incremental postage, but only to the extent that the addition of the ASB advertising increases the postage over what it would have been without the advertising.

[12] As a new separate business unit beginning in 2000, ASB was able to piggyback onto a fully-developed customer service function and information system.

b. Tariffed Rates - ETG's ASB is required to file tariffed rates and to avoid cross-subsidies by maintaining rates at or above the "fully allocated cost" of providing service. Competitors are not bound by this restriction. However, we found that NUI did not maintain appliance service prices sufficient to recover fully allocated costs. As such, during the audit period the tariff and pricing restrictions imposed on NUI were primarily a theoretical, rather than an actual, competitive disadvantage.

c. Corporate Overheads - NUI ASB is required by Affiliate Standards to incur corporate administrative expenses that smaller competitors may not incur. For example, smaller competitors are unlikely to incur costs similar to those incurred by NUI's executive, treasury, investor relations and legal functions that are charged to NUI's ASB unit. However, we estimate the corporate amounts avoided by smaller competitors are far outweighed by the scale economies that inure to the utility's ASB unit.

d. Cost and Productivity - The ASB's relatively high fully allocated cost per hour suggest that it may be at a productivity or other cost disadvantage relative to some smaller competitors.

Chapter 5 - NUI's Energy Affiliates

Chapter 5 - NUI's Energy Affiliates

I. Introduction

This chapter covers the relationships and transactions between ETG and three non-utility energy affiliates: NUI Energy Brokers (Energy Brokers), NUI Virginia Gas (Virginia Gas), NUI Energy (Energy) and NUI Energy Solutions (Solutions). Energy Brokers and Virginia Gas operate in the wholesale gas marketing, trading and storage businesses. Energy aggregates and sells price-stabilized gas to large commercial and industrial end users. Solutions uses Energy's employees to provide energy consulting services, primarily assistance with gas procurement. Solutions is a very small business that does not appear to fit strategically into NUI's energy business plans.

II. Summary of Audit Findings

A. **Functional Separation - ETG and Retail Energy Services** - NUI Energy is essentially a marketing organization serving larger commercial and industrial customers. It maintains office space and employees separate from ETG. Affiliate Standards describe the merchant function as a function that may not be shared by a utility and its "competitive services" affiliates. Energy and ETG indirectly share certain merchant (gas supply) activities through Energy Brokers, which performs them for itself, for ETG and for Energy. Although the supply activities performed by Energy Brokers create an indirect merchant function relationship between ETG and Energy, this appears to be mitigated by ETG's avoidance of supply and capacity transactions with Energy. As long as ETG does not sell its gas or release its capacity to Energy, the indirect relationship created by Energy Brokers does not appear to be problematic. We did not perform transactions testing to independently verify management's representation that ETG does not sell to Energy, but we found nothing during the audit to indicate that such sales occurred.

B. **Functional Separation - ETG and Wholesale Energy Services** -- Energy Brokers maintains office space and a departmental organization separate from ETG. Energy Brokers executes ETG's gas supply transactions. Transaction execution is part of the merchant function, a function that Affiliate Standards prohibit from being shared by the utility and a "competitive services" affiliate. However, it is Overland's understanding that as a "wholesale" affiliate, Energy Brokers is not subject to BPU Affiliate Standards; therefore, the merchant activities shared with ETG do not appear to be at variance with the Standards. ETG and Energy Brokers share an energy management system, but Energy Brokers' management represents that separate asset "portfolios" (gas and transportation capacity) are maintained within the system and that Energy Brokers does not sell to ETG from its portfolio. Although we were unable to perform detailed testing to independently verify these representations, we found nothing during the audit to suggest that they were not accurate (Chapter 5). Apart from the shared merchant function, Energy Brokers and ETG are functionally separate.

C. **Accounting Separation and Inter-company Gas Transactions** - Despite sharing an energy management system developed by Energy Brokers, NUI represents that ETG, Energy Brokers and Energy all maintain separate gas asset portfolios. However, there are significant inter-company transactions between ETG and its energy affiliates involving gas purchases, sales and revenue allocations. We were unable to develop an understanding of these transactions sufficient to draw a conclusion about them due to their complexity and the late arrival of journal entry support. The nature of the transactions, their magnitude (exceeding $100 million annually), and the growing unsettled balances in ETG's inter-company payables and receivables accounts, all suggest that these transactions should be carefully audited. Although ETG's books are separate from those of Energy and Energy Brokers, the large unsettled inter-company balances between ETG and these subsidiaries prevents us from determining that appropriate accounting separation is maintained.

III. Audit Analysis

A. Operations and Financial Summary

During the audit period NUI operated energy businesses that were not regulated by the New Jersey Board of Public Utilities through the following subsidiaries:

- NUI Energy Brokers
- NUI Energy
- NUI Energy Solutions
- NUI Virginia Gas

NUI is also developing energy businesses internationally. The costs and issues associated with international efforts do not appear to have been significant during the audit period.

1. Energy Brokers and Virginia Gas

Energy Brokers and Virginia Gas together comprise NUI's wholesale energy trading and marketing business. Energy Brokers began operating in 1996. It conducts wholesale energy trading and brokering and portfolio management. Energy Brokers also assists NUI Utilities and its subsidiaries (ETG, etc.) by providing expertise concerning the natural gas market and executing utility gas supply transactions (acting as the utilities' broker).[1] Energy Broker's trading and brokering activities involve of both pipeline capacity and gas commodity assets as well as financial assets such as gas options and futures.

NUI describes Virginia Gas as a gas pipeline, storage and distribution company located in the Mid Atlantic region.[2] It consists primarily of a storage facility that NUI is developing in a joint venture with Duke Energy. Through Virginia Gas, NUI manages the operations of a limited liability company, Saltville Storage, created to develop and own storage assets. The joint venture's immediate objective during the audit period was to expand the storage capacity at Saltville from approximately 1 billion cubic feet (bcf) to 12 bcf. Virginia Gas operates the storage facility.

[1] Interview notes, Stan Brownell, October 22, 2002.

[2] SEC Form 10-K, 2001, Item 1, Business, Products and Services.

Virginia Gas can be viewed as a tool of Energy Brokers' wholesale trading business. Virginia Gas' storage facilities will serve as an regional energy trading hub for Energy Brokers. NUI believes natural gas fueled power production in the area will create local demand for the gas placed into storage at Saltville. Storage can increase the flexibility and profitability of wholesale trading. For example, one very basic commodity strategy made possible by storage is "buying low" in the summer and "selling high" in the winter.

The table below summarizes the financial results of Energy Brokers and Virginia Gas in 2001 and 2002.

Table 5-1
NUI Wholesale Energy Business
Summarized Results of Operations

	Amounts in 000s			
	Energy Brokers		**Virginia Gas**	
	2001	**2002**	**2001**	**2002**
Operating Revenue	$480,977	$333,866	$2,823	$9,922
Cost of Sales	461,590	314,413	495	935
Operating Margin	19,387	19,453	2,328	8,987
O&M Expense & General Taxes	6,996	7,508	765	4,235
Depreciation & Amortization	98	111	595	2,379
Other Income (Expense)	466	(174)	(804)	(3,035)
Income (Loss) Before Income Tax	12,759	11,660	164	(662)
Income Tax	5,198	4,795	57	(260)
Net Income (Loss)	$7,561	$6,865	$107	$(402)
Source: OC-18 and OC-115				

2. Energy and Energy Solutions

Energy began operations in 1995 as NUI's unregulated retail trading subsidiary. It is run by an NUI director-level manager. The largest part of Energy's business involves providing gas supply for large industrial and commercial customers, including commercial and industrial associations, primarily within the service territory of NUI Utilities. In New Jersey, Energy currently competes with 6 licensed marketers. By aggregating supply, Energy hopes to provide gas at somewhat better prices than its customers can obtain on their own. By using hedging strategies, Energy can offer both a discount from tariffed prices and a degree of price certainty not available under the terms of ETG's tariff.[3] Energy describes its essential business as the sale of price certainty and risk management.[4] NUI listed 800 customers for Energy in 2001 and 413 customers in 2002 for cost allocation purposes, but Energy's Director indicated the

[3] Energy explained that it hedges 100 percent of its base volume (customer base load normalized weather) contracts based using futures contracts. Interview notes, Tom Kuster and Rudy Mach, November 19, 2002.

[4] Ibid.

business has approximately 3,400 customer accounts in six states.[5] Energy does not currently compete in the residential gas market. Energy Brokers provides procurement services to Energy, supplying the gas for its base volume contracts.[6]

Energy Solutions is an energy management consulting company. One of its functions is to assist industrial and commercial customers in bidding for their own gas supply. Solutions maintains a very small consulting business with services provided by employees of Energy. In 2002 it had 3 customers and $289,000 in revenue. The Director of Energy describe Solutions as a "de-emphasized" business.[7]

The table below summaries the operating results of Energy and Energy Solutions in 2001 and 2002.

Table 5-2
NUI Retail Energy Business
Summarized Results of Operations

	Amounts in 000s			
	NUI Energy		NUI Energy Solutions	
	2001	2002	2001	2002
Operating Revenue	$122,832	$113,583	$133	$289
Cost of Sales	117,124	111,418	215	-
Operating Margin	5,708	2,165	(82)	289
O&M Expense & General Taxes	3,400	3,820	117	254
Depreciation & Amortization	263	269	10	115
Other Income (Expense)	(328)	(675)	(63)	(25)
Income (Loss) Before Income Tax	1,717	(2,599)	(272)	(105)
Income Tax	403	(1,049)	(121)	(42)
Net Income (Loss)	$1,314	$(1,550)	$(151)	$(63)
Source: OC-18 and OC-115				

B. The Wholesale Energy Organization

1. Wholesale Energy Legal Organization

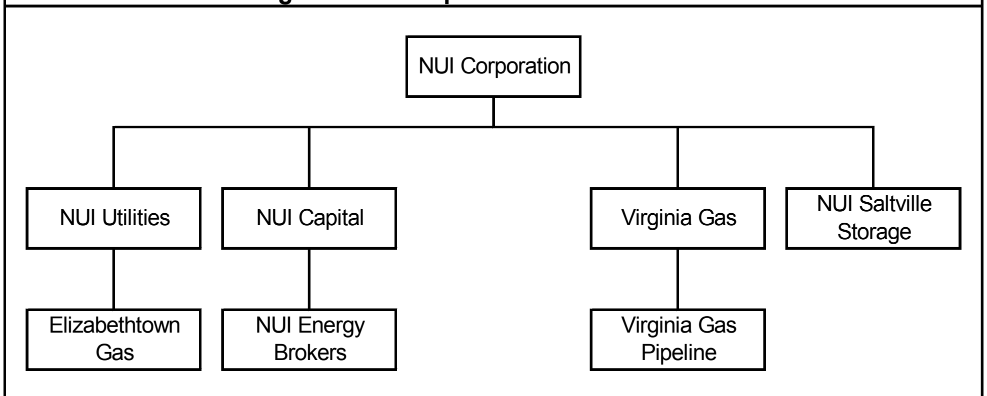
Energy Brokers is a subsidiary of NUI Capital. Virginia Gas and its storage development affiliate, Saltville Storage, are both directly owned by NUI Corporation (Corporation). The chart below summarizes the relationship between the companies and ETG.

[5] Corporate allocation model data, OC-7 and Interview notes, Kuster and Mach..

[6] Interview notes, Kuster and Mach.

[7] Ibid.

Chart
NUI Wholesale Energy Affiliates
Legal Relationships with Elizabethtown Gas



Source: OC-16

2. Wholesale Energy Functional Organization

Wholesale functional organizations consist of an energy trading and management department (Energy Brokers) and storage development and operating departments (Virginia Gas). Energy Brokers is run by a President, Stan Brownell. It appeared to us that Mr. Brownell is strategically in charge of all of NUI's non-utility energy activities, including Energy Brokers, Virginia Gas and the retail subsidiary Energy.

During the audit period, Energy Brokers was considered to be a single department for budget purposes. In fact, however, it contains several functional areas, including:[8]

- Energy Trading - This function, run by a Director, is responsible for assessing the energy market, developing trading strategies consistent with market assessments, and implementing the trading strategies.

- Risk Management - This function, run by a Director, oversees trading activities, executes derivatives transactions and ensures that the company's energy risk management policy is put into business practice.

- Gas Acquisition - This function makes sure that gas flows in accordance with the physical purchases that Energy Brokers makes.

[8] Job descriptions, OC-64, and Interview Notes, Stan Brownell.

C Administration - This function, run by a Director, includes the “back office” activities of the business, including accounting for energy trading deals, counter-party credit analysis, involve processing and risk management policy compliance.
NUI acquired Virginia Gas with an existing organization in 2001. Its departments include accounting, finance and regulatory functions, storage project development, Saltville operations, evaporation management and operations and propane operation. The table below summarizes the force levels in NUI’s wholesale energy departments:

Table 5-3
NUI Wholesale Energy Affiliates
Functional Organization

Dept. No.	Department Title	Employees	
		2001	2002
Energy Brokers			
617	Energy Brokers	27	28
Virginia Gas			
650	General Manager	1	1
651-653	Finance, Regulatory and Accounting	8	8
654	Marketing and Government Affairs	2	2
660	Operations and Engineering	1	-
803-804	Saltville Project Management and Operations	18	19
805-806	Pipeline Operations and Storage Development	2	2
807	Evaporator Management and Operations	16	16
800	Propane Company	14	-
801	Distribution Company	2	1
808	Storage Company	4	4
	Total Virginia Gas	68	53
	Total Wholesale Energy Affiliates	95	81

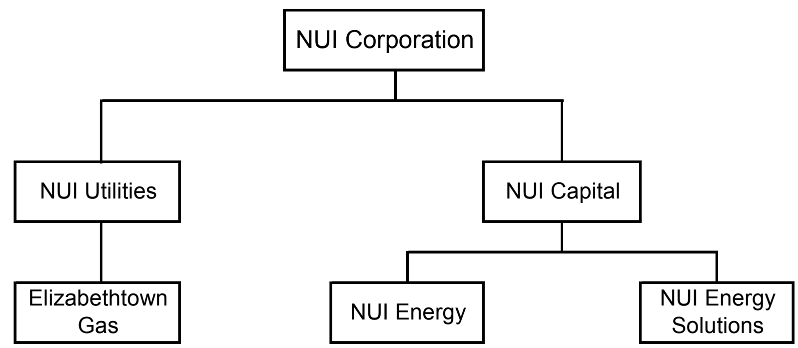
Notes:
1. The department numbers for the Virginia Gas affiliate changed between 2001 and 2002. RC's 661 and 663 became RC's 803 and 804, respectively; RC's 664 and 665 became RC's 805 and 806, respectively; RC's 666 and 667 became RC 807; RC 802 became RC 808.
Source: OC-25 and Audit Analysis

C. The Retail Energy Organization

1. Retail Energy Legal Organization

Retail energy subsidiaries Energy and Solutions are subsidiaries of NUI Capital. The legal relationship between the companies and ETG is summarized below.

Chart
NUI Retail Energy Affiliates
Legal Relationships with Elizabethtown Gas



Source: OC-16

2. Retail Energy Functional Organization

The retail energy company is primarily a sales and marketing organization consisting of customer account executives and a management and administrative function . Sales and marketing activity is divided between "commercial accounts" and "key accounts" departments. Accounting employees (a Controller and two Staff Accountants) once considered part of NUI's corporate unit, NUIHQ, have recently been rolled into the Energy organization. The table below summarizes the Energy functional organization.

Table 5-4
NUI Retail Energy Affiliates
Functional Organization

Dept. No.	Department Title	Employees	
Energy		**2001**	**2002**
462	Energy Administrative	6	9
612	New Jersey Commercial	7	9
614	New Jersey Key Accounts	4	6
616	Pennsylvania	2	1
	Total Energy	19	25
Energy Solutions			
none	none	-	-
	Total Retail Energy Affiliates	19	25

Source: OC-25 and Audit Analysis

D. Separation From the Utility

1. Functional and Management Separation - Energy Brokers, Virginia Gas and ETG

Energy Brokers is located in its own section of the Bedminster corporate office. Virginia Gas is physically separate from ETG. Stan Brownell, the President of Energy Brokers and Joseph Curia, General Manager of Virginia Gas report to NUI's Chief Operating and Financial Officer, Mark Abramovic. ETG's gas supply department (Energy Supply) is also located in Bedminster, but has its own space.

There is a significant operating relationship between Energy Brokers and NUI Utilities' Energy Supply function; specifically, Energy Brokers provides market analysis and purchases gas and transportation for the utilities in accordance with utility gas supply plans. This creates substantial inter-company revenue for Energy Brokers; however, Energy Brokers represents that it does not charge NUI Utilities for the service it performs, and describes its role as a "commission free broker" for the utilities.[9] In effect, Energy Brokers serves two functions: a wholesale energy marketer for NUI and an energy buyer and trader for NUI Utilities. Energy brokers represents that it does not sell NUI Utilities gas from its own portfolio.

Among the activities Energy Brokers performs on a "commission free" basis are activities defined as part of the merchant function under the Affiliate Standards (hedging and financial derivatives and arbitrage services and purchasing gas transportation). The Affiliate Standards also define these as "services that may not be shared" by the utility and a competitive services segment.[10] The applicability of this prohibition to Energy Brokers depends on whether the services are considered to be "competitive services" under the Affiliate Standards. As a wholesale provider, it seems likely that NUI would contend that Energy Brokers is not a "competitive service" provider. As such, it seems likely that NUI would contend that neither Energy Brokers nor ETG are subject to the Affiliate Standards' shared merchant function prohibition.

There were no significant functional relationships between ETG and Virginia Gas during the audit period. However, based on an article in NUI's employee newsletter, it appeared that Virginia Gas used, but did not pay for, NUI Utilities' SCADA system. In an exit audit conference, NUI represented that Virginia Gas does not use the utility SCADA system.

2. Functional and Management Separation - Retail Affiliates

During our interview, Tom Kuster, Director of Energy, indicated he reported to Mr. Abramovic, NUI's CFO / COO, but this reporting relationship is not reflected on organization charts. It appears that more likely that Mr. Kuster answers to Mr. Brownell on most matters. There are no significant functional relationships between Energy and NUI Utilities or ETG. Energy represents that it seldom interacts with ETG.

[9] Interview notes, Stan Brownell, October 22, 2002.

[10] Affiliate Standards 14:4-5.2 Definitions.

Energy purchases gas from Energy Brokers.[11] A review of Energy's organization chart shows that its employees include no "traders" or others likely to be involved in gas purchasing.[12] Energy Brokers purchases gas for Energy as well as for ETG, as evidenced by Energy's organization, which consists mainly customer account employees. As such, through Energy Brokers, Energy (a retail affiliate) and ETG appear to indirectly share at least parts the merchant function. As described above, Affiliate Standards prohibit ETG from sharing with a "competitive services segment". It is unclear whether the prohibitions extend to such sharing when accomplished indirectly through a third affiliate such as Energy Brokers. However, given that NUI represents that Energy does not buy gas or capacity from ETG, and as long as this remains the case, we do not believe the supply activities performed by Energy Brokers create the potential for conflicts of interest between Energy and ETG.

3. Accounting and Asset Separation

All of the non-utility energy companies maintain their own sets of books. The only non-utility energy subsidiary with significant capital assets is Virginia Gas. Its assets are separated both geographically and financially from ETG's assets. Energy and Energy Brokers primary assets relate to their trading and supply portfolios. It is our understanding that these portfolio assets are maintained separately from those of the utility.

4. Information and Information Systems Separations

Energy Brokers and ETG share an energy management system that Energy Brokers helped develop. Both Energy Brokers' President and ETG's Director of Gas Supply represented that ETG does not pay for its use of the system. Time did not permit an analysis of the implications of the utility, wholesale trading affiliate and possibly the retail energy company sharing a single energy management system. To the extent it is shared, system controls should be in place to lock each affiliate out of the others' accounts and transactions.

Energy uses NUI Utilities' customer information system for "usage and accounts receivable."[13] Energy represents that it must get a release from customers permitting the transfer of utility customer data prior to its occurrence. Energy's customers are set up with a separate prefix (901) in the CSS account number. Energy represents that its access to CSS data is limited to accounts with the 901 prefix.

[11] Interview notes, Kuster and Mach, November 19, 2002.

[12] Energy's organization chart shows account representatives and sales employees, several administrative and two "analysts". Energy does not appear to have the capacity to buy its own energy.

[13] Interview notes, Kuster and Mach, November 19, 2002.

E. Marketing and Promotion

1. Marketing Activities

Energy Brokers operates in wholesale markets that do not provide opportunities for cross marketing and promotion with the utility. Energy's marketing relies primarily on market knowledge and customer relationships. Energy's primary marketing assets are it Account Executives who are responsible for their own customers. Although Energy sells to end users in ETG's service area, it does not "compete" with the utility *per se* because the utility makes no money from selling the gas commodity that Energy supplies. We did not find any obvious opportunities for joint marketing and promotion between ETG and Energy. However, Energy's current business plan includes an action item to promote products for NUI Telecom and the New Jersey appliance business.[14]

2. Utility and Corporate Brand Association

Both Energy Brokers and Energy are linked to ETG through the NUI corporate name. Energy Brokers operates in a national energy marketplace. NUI's small size makes it unlikely that NUI or its association with ETG provide significant name recognition value to Energy Brokers. Energy is also linked to ETG through the NUI name. Unlike Energy Brokers, Energy operates primarily within New Jersey and a few other states. Its territory significantly overlaps ETG's. Given this territory and the end-user customer base, it is not unreasonable to assume that being linked to ETG provides Energy some advantage with some of its customers. In fact, in its 2002 "tactical" plan, Energy lists "utility brand affiliation" as one of its six strengths. There is no obvious basis for placing a monetary value on utility brand affiliation and Affiliate Standards do not require brand value to be recognized as a compensable affiliate transaction.

F. Affiliate Transactions - NUI Corporate Services Provided to Energy Brokers, Energy and Virginia Gas

Attachment 5-1 through 5-3 provides a summary of NUI corporate services charged to the non-utility energy subsidiaries. As discussed in Chapter 3, there were problems with procedures used to charge common corporate and utility costs to subsidiaries.

G. Affiliate Transactions Between ETG and the Energy Subsidiaries

1. Energy Advisory and Merchant Services

Energy Brokers indicated that it provides ETG with advice concerning energy markets to assist the utility in making purchasing decisions. Energy Brokers executes physical purchase and financial hedging transactions on behalf of ETG (both parts of the merchant function). It is unclear precisely what role ETG plays in the gas purchasing process. However, a review of NUI Utilities Energy Supply department employee list indicates that Utilities has no employees such as traders that would be directly engaged in executing physical or financial transactions.

[14] OC-86.

Energy Brokers indicated that it provided these services to NUI Utilities at no charge.[15] There are large inter-company balances on Energy Brokers' and ETG's books associated with the purchases Energy Brokers makes for ETG.

2. Use of Energy Brokers' Energy Management System

Energy Brokers and ETG both indicated that ETG uses an Energy Management System developed by Energy Broker's President Stan Brownell.[16] Both companies indicated that ETG did not compensate Energy Brokers for using the system. It is not completely clear whether ETG, Energy Brokers or NUI "own" the system, but it appears most likely that it is owned by Energy Brokers. To the extent Energy Brokers owns the system, ETG is currently obtaining an item of value without compensation. Technically, this a cross-subsidy of ETG and its ratepayers by NUI and its shareholders.

3. Seasonal Delivery Service

In 2002, Energy paid ETG $58,333 monthly for Seasonal Delivery Service, a service involving withdraw from storage. Energy was required to bid on this service. It accounts for approximately two-thirds of ETG's total intercompany service revenue.

4. Transactions with Virginia Gas

There were no significant functional relationships between ETG and Virginia Gas during the audit period.

5. Revenue Transactions

Despite the fact that ETG, Energy and Energy Brokers each maintain separate gas portfolios, we found significant and growing inter-company accounts receivable and payables balances between ETG and the energy affiliates. This is summarized in the table below.

Table 5-5
NUI Energy and NUI Energy Brokers
Inter-company Balances with Elizabethtown Gas

	2000	**2001**	**2002**
Energy	108,276,709	195,195,648	287,728,072
Energy Brokers	22,319,380	48,142,348	95,569,940

Notes:
1. The inter-company balances are found in each affiliates' "due to / due from ETG" account. All balances above are receivables on the energy affiliates' books.

Source: OC-20 and OC-136

[15] Interview Notes, Stan Brownell, Energy Brokers, October 22, 2002.

[16] Interview notes, Brownell and Interview Notes, Tom Smith, ETG Gas Supply, October 24, 2002.

We requested a sample of journal vouchers to examine the basis for the large and growing intercompany balances. The journal data was received in mid December. We were unable in the time available to develop a sufficient understanding of these journal entries to establish a comfort level regarding their impact on ETG. Some of the transactions appear to involve revenue allocations between ETG and other energy affiliates. We do not know why such allocations lead to large receivables and payables between ETG, Energy Brokers and Energy. We do not know why there are no apparent inter-company revenues or expenses associated with these transactions on ETG's income statement. Given the large amounts and the potential for error in recording ETG's share of the revenues, the transactions appear to be worthy of a detailed review. They may be subject to BPU review as part of its regular gas procurement and LGAC audits. The revenue allocations may be problem-free and explainable. However, the growing inter-company receivables and payables balances are symptomatic of a larger general problem with accounting for and settling inter-company balances.

NUI Energy
Corporate and Centralized Services Charges from NUI

Corporate Function or Centralized Service	Shared Benefits Recognized?	Cost Charging Methods	2001 Amount	2002 Amount
Executive and "Other"	Yes	No	$ 53,944	$ 13,599
Corporate Accounting	Yes	No	47,543	(61,222)
Information Technology	Yes	No	97,862	104,985
Legal and Related Outside Services	Yes	Internal No, Ext. Yes	17,369	18,966
Public Affairs, Municipal and State Affairs	No	No	-	-
Marketing Administration	Yes	No	19,362	7,103
Human Resources, Compensation, Training, Payroll	Yes	No	105,924	30,676
Corporate Development (1)	Unknown	Unknown	-	-
Insurance	Yes	No	5,426	14,059
Treasury	Yes	No	16,531	16,687
Corporate Secretary & Investor Relations (1)	Unknown	Unknown	-	-
Purchasing	'01 No, '02 Yes	No	-	7,558
Rent and Building Services	Yes	Yes	79,694	88,662
Depreciation on Corporate Assets (2)	Yes	Unknown	30,841	35,321
NUI Employee Benefits and Payroll Tax	'01 No, '02 Yes	Yes	-	492,602
Totals			$ 474,496	$ 768,996

Notes:

1. Review of the NUI Energy trial balances does not indicate separate allocations for this service. It can not be determined if the cost of this service is allocated with one (or more) of the other functions listed above or not allocated at all.

2. Although NUI Energy received a depreciation allocation, we can not determine if the allocation methodology used is appropriate. NUI does not maintain workpapers supporting its depreciation allocations.

Source: OC-20, OC-136 and Audit Analysis

NUI Energy Brokers
Corporate and Centralized Services Charges from NUI

Corporate Function or Centralized Service	Shared Benefits Recognized?	Cost Charging Methods	2001 Amount	2002 Amount
Executive and "Other"	Yes	No	$ 100,694	$ 32,142
Corporate Accounting	Yes	No	88,746	201,233
Information Technology	Yes	No	182,676	248,146
Legal and Related Outside Services	Yes	Internal No, Ext. Yes	32,423	46,685
Public Affairs, Municipal and State Affairs	No	No	-	-
Marketing Administration	'01 No, '02 Yes	'01 N/A , '02 No	-	17,485
Human Resources, Compensation, Training, Payroll	Yes	No	197,554	75,163
Corporate Development (1)	Unknown	Unknown	-	-
Insurance	Yes	No	9,406	18,342
Treasury	Yes	No	30,859	39,441
Corporate Secretary & Investor Relations (1)	Unknown	Unknown	-	-
Purchasing	'01 No, '02 Yes	No	-	18,605
Rent and Building Services	Yes	Yes	209,105	218,847
Depreciation on Corporate Assets (2)	Yes	Unknown	57,570	83,486
NUI Employee Benefits and Payroll Tax	'01 No, '02 Yes	Yes	-	845,001
Totals			$ 909,033	$ 1,844,576

Notes:
1. Review of the NUI Energy Brokers trial balances does not indicate separate allocations for this service. It can not be determined if the cost of this service is allocated with one (or more) of the other functions listed above or not allocated at all.
2. Although NUI Energy Brokers received a depreciation allocation, we can not determine if the allocation methodology used is appropriate. NUI does not maintain workpapers supporting its depreciation allocations.

Source: OC-20, OC-136 and Audit Analysis

Virginia Gas
Corporate and Centralized Services Charges from NUI

Corporate Function or Centralized Service	Shared Benefits Recognized?	Cost Charging Methods	2001 Amount (1)	2002 Amount
Executive and "Other"	Yes	No	Unknown	$ 50,686
Corporate Accounting	Yes	No	Unknown	118,569
Information Technology	Yes	No	Unknown	391,308
Legal and Related Outside Services	Yes	Internal No, Ext. Yes	Unknown	65,651
Public Affairs, Municipal and State Affairs	No	No	Unknown	-
Marketing Administration	Yes	No	Unknown	24,588
Human Resources, Compensation, Training, Payroll	Yes	No	Unknown	129,743
Corporate Development (2)	Unknown	Unknown	Unknown	-
Insurance	Yes	No	Unknown	74,056
Treasury	Yes	No	Unknown	62,195
Corporate Secretary & Investor Relations (2)	Unknown	Unknown	Unknown	-
Purchasing	Yes	No	Unknown	24,566
Rent and Building Services	Yes	Yes	Unknown	125,104
Depreciation on Corporate Assets (3)	Yes	Unknown	Unknown	131,652
NUI Employee Benefits and Payroll Tax	'01 No, '02 Yes	Yes	Unknown	153,792
Unexplained Amts & "High Level" Adjs (4)	Unknown	Unknown	Unknown	(226,792)
Totals			Unknown	$ 1,125,118

Notes:
1. No 2001 Virginia Gas trial balance was provided.
2. Review of the Virginia Gas trial balance does not indicate a separate allocation for this service. It can not be determined if the cost of this service is allocated with one (or more) of the other functions listed above or not allocated at all.
3. Although Virginia Gas received a depreciation allocation, we can not determine if the allocation methodology used is appropriate. NUI does not maintain workpapers supporting its depreciation allocations.
4. Four additional "allocations" were made to Virginia Gas, including: "Direct Allo to Cap Projects" for (7,263); "Other Costs Allocated to JV" for (183,376); "Other Costs Allocated to O&M" for (10,554); and Allocated Overhead Costs" for (25,599).

Source: OC-20 and Audit Analysis

Chapter 6 - NUI Utility Business Services (UBS)

Chapter 6 - NUI Utility Business Services (UBS)

I. Introduction

This chapter covers competitive services provided by NUI Utility Business Services (UBS). UBS provides billing and remittance processing services and geographic information services. UBS develops and licenses software, including Wins CIS (a customer information system licensed primarily to water utilities) and Wins FieldBook, an application that provides field access to a utility's computerized mapping database. UBS derives more than half of its revenue from inter-company charges to NUI Utilities. Two-thirds of the inter-company charges (approximately $10 million for the 2 year,10 month period ending July, 2002) are billed to ETG.

II. Summary of Audit Findings

A. **Functional and Management Separation** - UBS is a separate business unit with its own physical space and employees. Its President, Robert Williams, reports directly to NUI's Corporate Chief Operating Officer, Mark Abramovic. However, more than half of UBS's revenue is derived from NUI Utilities and some of UBS's Operations Applications and Support (OAS) department employees are effectively dedicated and entirely charged to NUI Utilities. During the audit period, NUI's customer information system maintenance department was extracted from UBS and placed back into the NUI corporate organization when an attempt to convert NUI Utilities customers to UBS's Wins CIS product was abandoned. The movement of departments between UBS and other business units and the billing of UBS employees entirely to regulated operations without inter-company service agreements or timesheet support muddles the separation between UBS and NUI's regulated utilities. As such, although separate organizational lines can be drawn for UBS, we do not consider UBS to be well-separated functionally from ETG. In fact, as described below, a primary concern with UBS is that the regulated utilities fund the development of UBS products through inter-company services while UBS and NUI receive the revenues and profits that the products generate.

B. **Accounting Separation** - UBS maintains a set of books separate from ETG and other NUI subsidiaries. However, as discussed above, at least one section of NUI's information technology department appears to have been moved into and then back out of UBS. Moving departments and associated costs between subsidiaries, if it occurs with frequency, can effectively make separate sets of books irrelevant.

C. **Marketing and Promotion** - We did not find any evidence that UBS and ETG cross-market or jointly promote their products and services. Given the nature of UBS's products and services, there is little reason to cross-market with the utility. However, as discussed below, it appears likely that UBS uses NUI Utilities and ETG to develop its products and make them market-ready. It does not appear that ETG or NUI Utilities are compensated for this; in fact, it appears that they are paying the development costs through inter-company service charges from UBS.

D. **Support for Inter-company Transactions** - In general, support for inter-company transactions between ETG and UBS was inadequate. UBS does not charge NUI Utilities for inter-company services based on itemized inter-company bills.[1] NUI Utilities and UBS do not have an inter-company service agreement documenting the nature, terms and prices of geographic information services that NUI Utilities buys from UBS. The UBS employees dedicated and charged in lump sum to NUI Utilities do not track their time on timesheets; as such, there is no practical way of evaluating what they do on a daily basis or whether it benefits ETG in proportion to what ETG pays for the services.

E. **Cross-Subsidization - Billing and Remittance Processing** - A comparison of per-bill prices UBS charged to ETG and to external customers suggests that billing and remittance processing is not being cross-subsidized by ETG.

F. **Cross-Subsidization - OAS Charges** - In 2002, NUI Utilities paid UBS nearly $1.5 million for geographic information services (GIS), 50 percent more than UBS received from all of its third-party GIS customers combined. The magnitude of amounts charged to NUI Utilities indicates a possibility that NUI Utilities is being used by UBS to recover costs that OAS cannot otherwise recover from the marketplace. If the costs of UBS employees charged entirely to NUI Utilities did not reflect professional services needed by and provided for the sole benefit of NUI Utilities (and without inter-company billing support or timesheets there is no way to evaluate this), then NUI Utilities cross-subsidized UBS. It is not possible with available information to determine what portion of the $1.5 million reflects GIS services NUI Utilities would have purchased on its own accord from the market absent the existence of UBS; therefore, it is not possible to quantify any cross-subsidy that may have occurred.

G. **Cross-Subsidization - Wins Fieldbook** - Evidence indicated that NUI Utilities funded the development of UBS's Wins Fieldbook, a digital map access application that UBS sells to other utilities. To the extent NUI Utlilities was not reimbursed or otherwise compensated at the market rate UBS charges to third-party customers for Wins FieldBook, NUI Utilities cross-subsidized UBS. It is not possible to quantify this cross subsidy with the data available.

H. **Cross-Subsidization - Gas Industry Version of Wins CIS** - Wins CIS is UBS's customer information system application for water and wastewater utilities. Beginning in 2000, NUI made an attempt to convert NUI Utilities to Wins CIS. The project was abandoned in 2001. Although inter-company transaction support is insufficient to draw a firm conclusion, it appears that NUI Utilities paid for some or all of the cost of the project. Had it been successful, UBS would have had a new version of CIS ready for marketing to the gas industry (Wins CIS is not currently adapted to the gas industry). In the apparent absence of an agreement between UBS and NUI Utilities to share development costs and risks, the amounts paid by NUI Utilities to fund UBS's adaptation of Wins CIS to the gas industry appear to be a cross-subsidy of UBS by NUI Utilities. It is not possible to quantify this cross subsidy with available data.

I. **UBS Charges for Office Space at 1085 Morris Av** - A comparison of the space UBS is charged for in NUI's Union office facility to space it occupies suggests that UBS is billed for slightly more than half the office space it actually occupies. It does not appear that

[1] There are no bills for service provided by OAS. For billing and remittance processing, UBS provided a copy of an itemized "pretend" bill for September, 2002 with itemized detail. The bill contains the statement "do not process through accounts payable."

UBS pays for the first-floor space occupied by its Win CIS computers or its customer bill inserter machine. Under the existing process for allocating Union's facility costs, most of the space not properly billed to UBS is effectively charged to ETG. Facilities costs incurred for the Union facility are discussed in Chapter 3. To the extent ETG indirectly pays for UBS's office space, it is a cross-subsidy of UBS by ETG. This cross subsidy is approximately $360,000 annually based on approximately 8,000 square feet of unbilled space and NUI's $45 per square foot space cost.

III. Audit Analysis

A. Operations and Financial Summary

UBS provides utility operational information systems and services to NUI Utilities and unaffiliated utilities, primarily in the water and wastewater industries.[2] Its affiliation with NUI dates to 1969, when it was called Computel. Computel operated as a billing service company performing billing for ETG as well as external customers, including other utilities and municipalities.

UBS currently provides services in two areas: customer information and billing (CIS) services and geographic information services. UBS's primary products and services during the audit period included the following:

- CIS Products & Services
    - Wins CIS - Wins is a customer information system tailored to water and wastewater utilities. UBS licenses the use of this product to its customers.
    - Utility Billing Services - UBS provides billing data preparation, processing, and mailing services. NUI Utilities accounts for a majority of the revenue from this business.
- Geographic Information Products & Services
    - Mapping Services - UBS offers account conversion and records maintenance services to customers using its Wins CIS system. UBS converts paper maps to computerized mapping systems and helps maintain those systems.
    - Wins FieldBook - This is a UBS-developed application that enables remote field access to a computerized mapping database. Both NUI and South Jersey Gas use the FieldBook application.

The table below summarizes UBS's results of operations for the audit period.

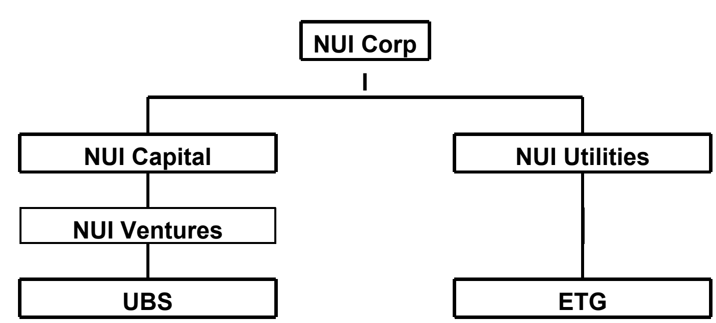
[2] OC-70. UBS counts the individual operating units of larger utilities (e.g. the state operating companies of United Water) as individual clients.

Table 6-1 **UBS** **Summarized Results of Operations**			
	Amounts in 000s		
	2000	**2001**	**2002**
Operating Revenue	$9,690	$ 11,044	$ 8,667
Cost of Sales	1,389	1,275	3,565
Operating Margin	8,301	9,769	5,102
O&M Expense & General Taxes	6,802	7,636	3,755
Depreciation	388	319	846
Acquisition Premium Amortization	-	-	-
Interest Expense	122	229	177
Other Income (Expense)	4	(35)	-
Income (Loss) Before Income Tax	993	1,550	324
Income Tax	406	633	133
Net Operating Income (Loss)	$ 587	$ 917	$ 191
Source: OC-18 & OC-115			

B. <u>Organization</u>

1. <u>Legal Organization</u> - UBS is a subsidiary of NUI Capital, a holding company owned by NUI Corporation (Corporation). UBS's legal relationship with ETG is shown in the table below.

Chart 6-1
UBS
Legal Relationship with ETG



Source: OC-16

2. <u>Functional Organization</u>

UBS's employees are located in ETG's Union, New Jersey office facility. UBS occupies approximately one side of one floor in this facility. UBS consists of the following departments.

Table 6-2 **UBS Department Structure**				
Dept. No.	**Department Title**	**2000 Employees**	**2001 Employees**	**2002 Employees**
636	Wins Applications	14	20	21
641	Distribution (Bill Print & Mail)	5	5	6
642	Cash Processing	4	4	5
643	Computer Operations	9	8	9
644	Syst. & Prgm. Customer Service Accounting	8	8	-
648	Operations Applications & Services (OAS)	15	16	17
	Total	55	61	58
Source: OC-25				

a. <u>Wins Applications (RC 636)</u> - The Wins Applications department provides software development and maintenance for the Wins CIS product that is marketed to unaffiliated water and wastewater utility customers. UBS is currently working on its fourth generation of Wins CIS. Wins CIS is not currently used by any of NUI's utilities; however, in 2000 NUI began a process of adapting Wins CIS to the gas industry and attempted to convert NUI Utilities to it.[3] NUI abandoned the conversion in 2001 and ETG retained its 1970s vintage proprietary customer information system.

b. <u>Bill and Remittance Processing Services (RCs 641, 642, 643)</u> - These UBS departments perform utility billing and customer remittance processing. Costs are split between NUI and UBS's unaffiliated customers.

c. <u>Systems and Programming Customer Service Accounting (RC 644)</u> - This department consisted of a CSS Applications Supervisor and seven programmers and systems analysts working on NUI's proprietary customer information system. In 2002 the department was moved from UBS to NUI's corporate Information Technology department. The most likely explanation for its inclusion in UBS was to help UBS adapt its Wins CIS product to the gas industry and convert NUI Utilities to Wins. After this effort was abandoned in 2001, there was no reason to maintain the department in UBS.

d. <u>Operations Applications and Services (OAS) (RC 648)</u> The OAS department provides geographic information services (GIS). This includes overseeing conversions of utility paper system maps to computerized mapping databases, verifying the quality and accuracy of the conversions and helping to install the functions necessary for the databases to be used for analytical work such as hydraulic modeling. OAS develops and licenses the Wins FieldBook product to unaffiliated customers. Wins FieldBook provides internet access to the computerized mapping database. OAS maintains NUI's utility mapping systems and databases. 60 percent of OAS's $2.5 million in annual revenue represent inter-company charges to NUI Utilities.

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[3] NUI Express - Elkton Gas Conversion - March 7, 2001. NUI Express - Process of converting ETG, City Gas Florida and Elkton Gas to Wins achieves several milestones.

The chart below summarizes the direct costs incurred by UBS departments during the audit period.

Table 6-3
Direct Costs Incurred By UBS Departments

	2000	2001	2002	Total
CIS - Wins				
636 Wins Applications	$811,324	$1,277,946	$937,790	$3,027,060
637 Client Marketing	64,030	6,242	-	70,272
Total Wins COS	875,354	1,284,188	937,790	3,097,332
CIS - Bill Processing				
641 Bill Print and Mailing	782,527	752,126	924,903	2,459,556
642 Payment Processing	376,219	356,198	531,535	1,263,952
643 Data Center	1,826,876	1,685,758	1,981,143	5,493,777
Total CIS - Bill Processing	2,985,622	2,794,082	3,437,581	9,217,285
CIS - Other				
644 Cust Svc Sys & Programming (moved back to NUI in 2002)	497,722	660,066	-	1,157,788
GIS				
648 Operations Apps & Services	853,517	1,142,296	1,578,797	3,574,610
Total	$5,212,215	$5,880,632	$5,954,168	$17,047,015

C. Separation From the Utility

1. Functional and Management Separation

UBS consists of responsibility area departments that are from NUI's utilities. Together they comprise a separate NUI business unit. UBS employees occupy space in NUI's Union, New Jersey office facility, which also houses NUI's and ETG's management and operations. The space is separate from office facilities occupied by ETG and other NUI subsidiaries in the building. Line authority for UBS and NUI Utilities (including ETG) is separate. UBS's President reports to Mark Abramovic, NUI's corporate Chief Financial and Operating Officer. The management of ETG and UBS is joined at the NUI Chief Executive Officer level.

Although separate physically and functionally, a number of the UBS OAS department's employees are essentially dedicated to utility activities. In the first 10 months of 2002, NUI's utilities were billed $1,209,000 for OAS engineering services. In 2003, UBS has budgeted nearly seven full-time-equivalent employees to provide services to NUI Utilities.[4] OAS' main product revolves around geographic information system services. NUI Utilities' need for $1.5 million annually in digital mapping maintenance services, an amount nearly 50 percent higher than the revenues from all external geographic services customers, seems questionable.[5] OAS employees do not itemize their time on an hourly basis; as such, there is no way of knowing

[4] Interview notes, Robert Williams, Brent Cirinelli, John Huff, Jim Forster, October 25, 2002.

[5] OC-83. Profitability reports show UBS OAS achieved external revenues of $1,036,000 million in 2002, about two-thirds of annualized charges to its inter-company customer NUI Utilities.

whether they are providing services at the "market" prices they charge to external customers, or whether the services are even needed.

2. Accounting Separation

UBS maintains a separate set of books on the shared NUI Peoplesoft system.

3. Physical Asset Separation

The most significant property required to perform the services provided by UBS are the billing and mailroom equipment, including an inserter machine, necessary to process bills and customer remittances. It appears from amounts reflected on UBS's balance sheet that this equipment is owned by UBS, rather than by ETG.

D. Marketing and Promotion

1. Marketing

UBS marketing activities consist of trade show appearances, a small amount of advertising in industry magazines and response to utility Requests for Proposal.[6] It does not appear that NUI's utility subsidiaries have any reason to be involved in these activities or to engage in joint promotions with UBS. UBS has a page on NUI's website, but most of the marketing information concerning UBS is maintained on a separate website. There is a link on the NUI-UBS website page to UBS's separate website.

2. Utility and Corporate Brand Association

UBS is linked to affiliated utilities through the NUI name. Because of the nature of its business, it does not appear that UBS's association with either NUI or ETG provides UBS a significant competitive advantage in the marketplace for its services.

E. Affiliate Transactions - NUI Corporate Services Provided to UBS

The table below summarizes corporate services charged to UBS in 2001 and 2002. UBS corporate billings are determined by NUI's corporate cost allocation procedures. As discussed in Chapter 3, there were problems with allocation procedures during the audit period. Among the obvious problems indicated by the amounts in the table below are the lack of charges for employee benefits prior to 2002 and the 50 percent reduction in UBS's rent and building services costs from 2001 to 2002. A comparison of office space billed and occupied by UBS in 2002 suggests that UBS was billed for only about half the space it occupied and did not pay for the space used by its Wins CIS computers and customer bill inserter.

[6] Interview notes, Bob Williams, Brent Cirinelli, John Huff, Jim Forster, October 25, 2002.

Table 6-4
UBS
Corporate and Centralized Services Charges from NUI

Corporate Function or Centralized Service	Shared Benefits Recognized?	Cost Charging Methods Appropriate?	2001 Amount	2002 Amount (1)
Executive and "Other"	Yes	No	97,098	88,110
Corporate Accounting	Yes	No	85,557	79,018
Shared Services Accounting				
Information Technology	Yes	No	176,152	165,224
Legal and Related Outside Services	Yes	Internal No, Ext. Yes	31,265	27,611
Public Affairs, Municipal and State Affairs	No	No	0	0
Marketing Administration	'01 No, '02 Yes	'01 N/A , '02 No	0	13,029
Human Resources, Compensation, Training, Payroll	Yes	No	190,550	49,173
Insurance	Yes	No	11,296	6,819
Treasury	Yes	No	29,757	25,741
Corporate Secretary & Investor Relations	Yes	No	97,098	88,110
Purchasing	'01 No, '02 Yes	No	0	12,663
Rent and Building Services	Yes	Yes	766,085	350,220
NUI Employee Benefits and Payroll Tax	'01 No, '02 Yes	Yes	0	686,310
Unexplained Amts & "High Level" Adjs	Unknown	Unknown		
Totals			1,484,858	1,592,028

Notes:
1. 2002 amounts through July 31; fiscal year-end trial balances were not provided
Source: OC-20 and Audit Analysis

F. Affiliate Transactions - Services Provided by UBS NUI Utilities and ETG

UBS supplies customer billing and remittance processing (CIS) services and geographic information services (GIS) to ETG and other NUI utilities. Although UBS claims to have over 65 utility clients, NUI Utilities accounted for more than half of UBS's total revenue during the audit period. The table below summarizes total UBS revenue, inter-company revenue from NUI in total, and inter-company revenue from ETG.

Table 6-5 **UBS Inter-company Revenue Analysis**			
Year	**Total Revenue**	**Inter-company Revenue**	**Inter-company Revenue from ETG**
2000	$9,689,925	$5,807,245	$4,224,180
2001	11,043,668	6,457,021	3,557,255
2002 (1)	8,439,569	4,510,676	2,436,992
Total	$29,173,162	$16,774,942	$10,218,427
Note 1: 2002 amounts are 10 months through July 31, 2002 Source: OC-20 and Source: OC-43			

The table shows that ETG was billed more than $10 million by UBS for a period of 2 years, 10 months ending July, 2002. UBS does not maintain affiliate billing support necessary to reconcile this amount with the individual services discussed below.

1. <u>Inter-company CIS Services</u>

UBS represents that ETG and other NUI utilities were charged for CIS bill printing and mailing, computer infrastructure and remittance processing on a per-bill basis throughout the audit period. UBS provided workpapers showing calculations of these per bill charges. The workpapers showed the following processing charges per bill:

FY 2000	63.4 cents
FY 2001	40.2 cents to 48.0 cents, depending on bill volume assumptions
FY 2002	57.0 cents

We were able to trace only some of the costs reflected in these charges from UBS's workpapers to budget variance reports showing its actual costs. UBS did not prepare inter-company bills for affiliates detailing the nature of its charges as it did for non-affiliated customers. Without itemized inter-company bills we were unable to determine exactly what UBS charged ETG for CIS services. However, the bill volumes supplied with the workpapers supporting the per-bill cost calculation suggest that ETG's share of bill processing costs was approximately as follows:

FY 2000	$982,146
FY 2001	$1,501,904
FY 2002 (20 months through July)	$990,000

2. <u>Inter-company GIS Services</u>

UBS's OAS department, which provides GIS services, charged ETG and three other NUI utilities for maintaining a mapping database on a time and materials basis. In general, ETG was allocated 85 percent of the charges in 2002. Limited time and a lack of support inhibited our ability to perform a detailed analysis of the charges. UBS represented that the charges planned for fiscal year 2003 represent approximately 6.75 full time equivalent employees, with four employees completely dedicated to NUI.[7]

[7] Interview Notes, Bob Williams, Brent Cirinelli, John Huff, Jim Forster, October 25, 2002

It is difficult to identify services that the OAS department provided to ETG during the audit period because UBS did not render periodic inter-company statements or maintain support for the professional services it charged. A workpaper attached to a UBS / ETG journal entry summarizes budgeted inter-company charges of $2.5 million for fiscal year 2002.[8] Of this, $1.45 million was budgeted for O&M charges and an additional $1 million to NUI Utilities capital. Of the O&M portion, 85 percent was to be allocated to ETG.[9] There was nothing supporting the budgeted allocation to show what UBS costs were included or how they were calculated. The amount OAS budgeted for affiliate O&M billings alone was nearly equal to the entire departmental O&M cost of $1.57 million incurred in 2002.[10] Given that OAS charged external customers more than $1 million in addition to the $2.5 million it was budgeting to charge NUI Utilities, the amounts budgeted for inter-company charges appear excessive.

3. UBS Transfer Pricing

Affiliate Standards transfer pricing rules require that the services UBS provides to NUI and ETG be priced no higher than market. A comparison of amounts charged to NUI's utilities for billing services suggest that the utilities were not over-charged for billing and remittance processing services during the audit period. There was no support available to assess the extent to which the utility engineering services provided by the UBS OAS department were priced at, above, or below market. However, a comparison of the 2002 amounts being billed to NUI Utilities, the amounts OAS earned from sales to unaffiliated customers, and the OAS department's cost indicate a possibility that NUI's utilities, including ETG, were charged amounts greater than it would have cost them to maintain similar engineering capabilities internally.

G. Cross-Subsidization

1. Billing and Remittance Processing Services

Our review indicates that UBS is providing billing and remittance processing services to NUI Utilities at a discount to the prices it provides similar services to some of its unaffiliated customers. To the extent that the average price UBS charges non-affiliated customers equals or exceeds the price it charges affiliated NUI utilities, the billing and remittance services UBS provides are not cross-subsidized by ETG or the other utilities.

2. Adaptation of Wins CIS to NUI Utilities

In 2000 and 2001, UBS assisted NUI Utilities in a project to replace ETG's internally-developed customer service system with a UBS Wins CIS product adapted to the gas industry. In December 2000, NUI provided UBS with a systems requirements document.[11] At the time NUI

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[8] OC-100

[9] The other utilities included in the allocation (City Gas Florida, North Carolina and Elkton) were budgeted on a combined basis for 15 percent of the total. The relative levels of plant - 73% Elizabethtown and 27% CTG, Elkton & NC, suggest a lower allocation to Elizabethtown was warranted.

[10] 2002 Budget Variance Report, RC 648, OC-21.

[11] NUI Express, December 13, 2000.

reported that UBS was in the programming design phase of the conversion.[12] Originally, ETG and City Gas Florida were to be the first to convert to Wins. Later, Elkton, a smaller utility, was moved to the front of the list. The entire project was abandoned before the end of the 2001 fiscal year.

As discussed above, Wins CIS is adapted to water and wastewater utilities and not to gas utilities. Based on NUI's organization charts, it appears that NUI moved information technology employees maintaining the proprietary customer information system into UBS to help UBS convert Wins CIS to gas. Had the conversion effort been successful it would have produced a version of Wins CIS adapted for UBS to sell to other gas utilities. Although a lack of itemized bills make it impossible to determine with certainty, review of UBS's 2001 profitability reports suggest that NUI Utilities, not UBS, paid for the development and conversion effort. In addition, workpapers provided in response to OC-56 for fiscal year 2000 contain a line item entitled "NUI-Conversion Costs - New Jersey" in the amount of $350,000. It is not unreasonable to suspect that NUI Utilities was charged for Wins CIS conversion costs in an amount significantly greater than $350,000 before the project was abandoned. When NUI determined that converting Wins CIS to its gas utility customers was not feasible, it moved the employees associated with the proprietary customer information system back to a corporate department where they continue charge to NUI Utilities for maintaining the existing proprietary customer information system.

Since NUI Utilities does not maintain written inter-company service agreements with UBS, it is not possible to determine whether NUI Utilities sought to limit its exposure to the costs UBS incurred in attempting to adapt Wins to gas. A successful conversion to Wins CIS would have benefited both UBS and NUI Utilities. The lack of a written service agreement suggests that there was no plan for UBS and NUI Utilities to share benefits or development and conversion costs. To the extent NUI Utilities was funding the entire conversion effort with no stake in the benefits of adapting Wins CIS to the gas industry, the cost of the abandoned project represents a cross-subsidy of UBS by NUI Utilities.

3. <u>OAS Inter-company GIS Services</u>

A number of UBS's OAS department employees are essentially billed entirely to NUI Utilities. In the first 10 months of 2002, ETG was billed $1,209,000 for OAS engineering services, or $1.5 million on an annualized basis. For fiscal year 2003, UBS budgeted nearly seven full-time-equivalent employees to inter-company services.[13] OAS' main product revolves around geographic information system services. It appears questionable whether ETG <u>needs</u> $1.5 million annually in geographic information services, an amount nearly 50 percent higher than UBS obtains from all of its external utility customers combined.[14] There is no inter-company services agreement between ETG and UBS for OAS services.[15] Because OAS employees do not itemize their professional services on an hourly or even daily basis, there is no practical way of evaluating what they are doing, whether their services are provided at "market" prices, or

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[12] Ibid.

[13] Interview notes, Robert Williams, Brent Cirinelli, John Huff, Jim Forster, October 25, 2002.

[14] OC-83. Profitability reports show UBS OAS achieved external revenues of $1,036,000 million in 2002, about two-thirds of annualized charges to its inter-company customer NUI Utilities.

[15] Williams, Cirinelli, Huff and Forster interview notes.

whether their efforts are even directed at ETG or other regulated NUI utilities. The lopsided share of revenue OAS obtains from inter-company charges suggests a possibility that OAS employees dedicated to inter-company services actually work on projects intended for eventual licensing or sale to third parties. Wins Fieldbook, discussed below, is an example of this. To the extent NUI Utilities is funding development of products for eventual distribution to the marketplace, but receives none of the benefits (profits), it is directly cross-subsidizing UBS's external product development efforts.

4. Wins Fieldbook Development Costs

Evidence suggests that NUI Utilities and ETG funded the development of UBS's Wins FieldBook product that is sold to other utilities. This is supported by the following:

- An NUI Express newsletter article: Wins Fieldbook Selected by South Jersey Gas!, which states "The UBS Operations Appliances and Services group was recently awarded a contract from South Jersey Gas Company for use of its Wins FieldBook services . . . 'This is our first contract for FieldBook from a non-NUI utility' explained Jim Forster . . ."[16]

- The following journal entry description: "To credit ETG for lower FieldBook development costs."[17]

Once developed, UBS began selling Wins FieldBook to unaffiliated customers. Although NUI Utilities appears to have funded the cost of development, it does not appear that the affiliated utilities are sharing the revenues UBS derives from third party customers.

[16] NUI Express (OC-28), July 25, 2001.

[17] OC-43, General Ledger Detail, ETG Account 231-112 (Due to / due from UBS), journal entries 2002003168, 3563, 3956, 4484.

Chapter 7 -NUI’s Telecommunications Subsidiaries

Chapter 7 - NUI’s Telecommunications Subsidiaries

I. Introduction

This chapter covers NUI’s telecommunications subsidiaries, NUI Telecom (Telecom) and TIC Enterprises, Inc (TIC). TIC, before its operations were discontinued, sold telecommunications equipment manufactured primarily by Lucent and Nortel. TIC contributed significant losses to NUI’s consolidated financial results and in 2002 NUI closed down most of its operations. Other than NUI’s 2001 acquisition of the portion of TIC it did not already own, there were no significant transactions between TIC and NUI subsidiaries during the audit period.

Telecom resells local, long distance and wireless phone services it buys on a wholesale basis from facilities-based carriers. Telecom is NUI’s and Elizabethtown Gas Company’s (ETG’s) primary telecommunications services supplier. This chapter deals primarily with Telecom and its transactions with NUI affiliates.

II. Summary of Audit Findings

A. **Separation from ETG** - Management, functional, physical and accounting separations between NUI’s telecommunications and utility subsidiaries are sufficient to prevent co-mingling of direct Telecom and ETG operations.

B. **Accounting and Asset Separation** - Telecom and TIC maintained separate sets of books during the audit period. Telecom is the only NUI subsidiary that renders a regular itemized statement for all of its inter-company services. NUI’s telecommunications subsidiaries do not use the utility’s gas system assets or information systems. However, certain assets (primarily office assets) and corporate information systems (e.g. systems used for accounting and human resources) are shared by ETG, Telecom and other NUI subsidiaries.

C. **Marketing and Promotion** - It does not appear that NUI’s telecommunications subsidiaries cross-marketed services or participated in joint promotions with ETG during the audit period.

D. **Transfer Prices for Telecommunications Services** - By the end of the audit period, most telecommunications services purchased by NUI were purchased from Telecom. Audit testing showed that long distance and wireless phone charges that could be identified and associated with NUI’s usage were appropriately priced at market. However, a substantial percentage of total inter-company charges could not be identified or substantiated. No conclusion can be drawn concerning the prices for these services.

E. **Unsubstantiated Inter-company Charges by Telecom** - For the period June 2001 through the end of the audit period (the period for which we received Telecom’s inter-company bills to NUI), more than half the total amounts shown on inter-company bills provided were unsupported by information identifying the charges with telephone services used by NUI departments. Neither NUI nor Telecom was able to provide data to substantiate the charges, which exceed $1 million on an annualized basis (a majority of which is allocated to ETG). It was not possible to determine whether the unidentified charges were, in fact, NUI's responsibility, or whether they represent telecommunications facilities and capacity that Telecom purchased to provide services to its other non-affiliated customers.

III. Audit Analysis

A. Operations and Financial Summary

1. NUI Telecom

Telecom is a sales and marketing organization that resells local, long distance and wireless phone services it purchases from facilities-based carriers such as Verizon, AT&T and Sprint. NUI acquired Telecom in November 1999 for $5.8 million in cash and NUI stock.[1] Prior to the acquisition, Telecom was known as International Telephone Group (ITG). In 2002, Telecom acquired Norcom, a Boca Raton, Florida-based telecommunications provider, along with 4,000 customer accounts, for $5 million, payable in NUI stock. Telecom is currently expanding internally into international operations. In 2002 it invested in a switch partition and wholesale capacity to provide service between New York and London.[2] Telecom also recently acquired carrier capacity between the U.S. and Latin America.[3] Telecom's top line grew substantially during the audit period as it acquired customers from Norcom and expanded internally.

Telecom's assets consist primarily of goodwill (the cost of acquisitions exceeding the fair value of the acquired companies' assets) and customer accounts receivable. Telecom contributed net operating losses of $2.6 million to NUI's operating results during the three year audit period, prior to eliminations for inter-company charges. Below is a summary of Telecom's financial results.

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[1] NUI SEC Form 10-K, FY 2001, Purchase of NUI Telecom. Additional acquisition costs of $1 million were incurred through the issuance of NUI stock to former ITG shareholders in December, 2001.

[2] Ibid.

[3] Interview notes, William Mucahy and Tom McGoldrick, Nov. 22, 2002.

Table 7-1 **NUI Telecom** **Summarized Results of Operations**			
	Amounts in 000s		
	2000	**2001**	**2002**
Operating Revenue	$5,242	$15,952	$30,070
Cost of Sales	4,516	10,501	22,116
Operating Margin	726	5,451	7,954
O&M Expense & General Taxes	1,311	4,271	11,176
Depreciation	18	168	203
Acquisition Premium Amortization	190	352	
Interest Expense	85	119	266
Income (Loss) Before Income Tax	(878)	541	(3,691)
Income Tax	(306)	220	(1,474)
Net Operating Income (Loss)	$(572)	$321	$(2,217)
Source: NUI Consolidating Financial Data, OC-18 and OC-115			

2. <u>TIC</u>

TIC was an Atlanta-based marketing company that sold business telecommunications equipment produced by companies such as Lucent and Nortel. NUI acquired an interest in TIC in 1997. The telecommunications equipment industry encountered serious problems in late 2000. In an effort to stem the losses, NUI acquired the portion of TIC it did not already own and consolidated it into NUI. Even after a substantial force reduction, TIC continued to lose money. In 2002, NUI discontinued most of TIC's operations and planned to combine what remained with Telecom. In discontinuing TIC and writing off its goodwill, NUI incurred a loss of approximately $30 million. TIC's 2001 and 2002 operating results are summarized below.

Table 7-2
TIC Enterprises
Summarized Results of Operations

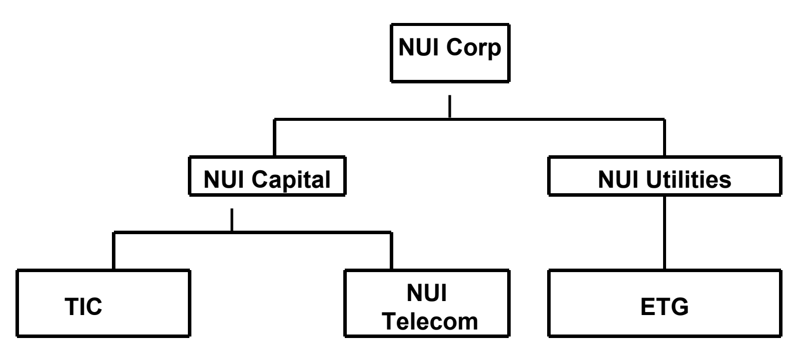
	Amounts in 000's	
	2001	**2002**
Operating Revenue	$12,553	$17,564
Cost of Sales	8,852	10,291
Operating Margin	3,701	7,273
O&M Expense & General Taxes	6,805	18,316
Depreciation	363	708
Acquisition Premium Amortization	530	41
"Other"		7,746
Interest Expense	197	1,443
Income (Loss) Before Income Tax	(4,194)	(20,981)
Income Tax	(1,617)	(7,343)
Net Income Before Chg in Accounting	(2,577)	(13,638)
Impact of Accounting Change (Discontinued Operations), Net of Tax		(17,642)
Net Income (Loss)	$(2,577)	$(31,280)

Source: NUI Consolidating Financial Data, OC-18 and OC-115

B. <u>Organization</u>

1. <u>Legal Organization</u> - Both Telecom and TIC are legal subsidiaries of NUI Capital, Inc., a holding company owned by NUI Corporation. The legal relationship between these subsidiaries and ETG is summarized in the chart below:

Chart 7-1
NUI Telecommunications Affiliates
Legal Relationships to ETG



Source: OC-13

The legal distance between Telecom and ETG, consisting of three separate holding company entities, appears sufficient to protect ETG from the direct impact of risk incurred by its parent in operating the businesses.

2. Functional Organization

a. Telecom - Telecom operates from NUI's corporate office space in Bedminster. Its audit period business consisted of the following departments and force levels:

Table 7-3
NUI Telecommunications Business Department Structure

Business Unit	Dept No.	Department Title	2000 Employees	2001 Employees	2002 Employees
NUITL	459	Norcom (acquired 2002)	0	0	8
NUITL	460	NUI Tel Administration	16	26	43
TICCO	516, 575, 700 701, 702, 703, 704	Support Services, Accounting, Telecom, Wireless, Network, USPS, Professional Services	Not Consolidated into NUI	Several Hundred	36
		Total	16	Unknown	87

Source: OC-25 and Audit Analysis

b. TIC - TIC was not consolidated into NUI prior to NUI's acquisition of the entire company in May, 2001. At its peak, TIC employed several hundred people in an Atlanta-based sales and marketing organization. Although NUI includes TIC employees in the total employees it reported to shareholders in 2001, TIC employees are not included on the 2001 NUI employee roster provided to us.[4] In 2002, after NUI discontinued most TIC operations, its force level had shrunk to 36 employees. These employees were included on the employee roster.[5] They continue to sell phone services. They are being integrated into Telecom.[6]

C. Separation From the Utility

The accounting, functional, management and physical separations between NUI's telecommunications subsidiaries and ETG are reasonable to minimize the opportunities for co-mingling with utility operations. TIC and Telecom have separate sets of books and separate employees.[7] Telecom's CEO and President, Richard Boudria, reports to Mark Abramovic, NUI's Corporate CEO.[8] No one in charge of gas utility operations or NUI Utilities, ETG's holding company, has management responsibility for TIC or Telecom. Telecom occupies a separate

[4] OC-25.

[5] OC-25.

[6] Interview notes of Tom McGoldrick and Bill Mulcahy, November 22, 2002.

[7] TIC was not even consolidated for financial purposes into NUI's financial structure until late in fiscal year 2001.

[8] OC-13.

area of office space in NUI's Bedminster corporate facilities. The telecommunications subsidiaries share the cost of certain corporate functions. As described elsewhere, the costs of these functions were not appropriately allocated in all cases among NUI subsidiaries during the audit period. The telecommunications affiliates share significant utility information systems.[9] Because of the nature of the businesses, there is little reason for the telecommunications and utility subsidiaries to share physical assets other than office space.

D. Marketing and Promotion

1. Marketing Services

Neither Telecom nor TIC engaged in joint marketing with ETG during the audit period. Telecom is allocated a page on NUI's corporate website. The corporate website is used to promote all NUI businesses. Nothing on Telecom's web page links it directly with ETG.

2. Utility and Corporate Brand Association

Telecom does not use ETG as a brand. However, all NUI subsidiaries, including Telecom and the gas utilities, are linked through the NUI name in their logos. Because the businesses involved are not related, it does not appear that the common use of the NUI provides a significant competitive advantage to Telecom.

E. Affiliate Transactions - NUI Corporate Services Provided to Telecom

Telecom was among the subsidiaries receiving an allocation of centralized services and corporate costs during the audit period. TIC did not receive centralized service or corporate cost allocations. The functions allocated to Telecom are summarized below.

[9] However, both companies share in the benefits of certain corporate systems, including systems used by the corporate accounting, human resources and investor relations functions.

Table 7-4
NUI Telecommunications Businesses
Corporate and Centralized Services Charges from NUI

Corporate Function or Centralized Service	Shared Benefits Recognized?	Cost Charging Methods Appropriate?	2001 Amount	2002 Amount
Executive and "Other"	Yes	No	$68,328	$37,519
Corporate Accounting	Yes	No	60,221	37,214
Shared Services Accounting	Yes	No		26,780
Information Technology	Yes	No	123,959	163,100
Legal and Related Outside Services	Yes	Internal No, Ext. Yes	22,001	51,074
Public Affairs, Municipal and State Affairs	’01 No, ’02 Yes	No	0	11,284
Marketing Administration	‘01 No, '02 Yes	No	0	11,474
Human Resources, Compensation, Training, Payroll	Yes	No	134,228	49,468
Corporate Development	‘01 No, ‘02 Yes	No	0	8,408
Insurance	Yes	No	6,379	7,583
Treasury	Yes	No	20,940	25,788
Corporate Secretary & Investor Relations	‘01 No, ‘02 Yes	No	0	27,750
Purchasing	‘01 No, '02 Yes	No	0	17,838
Rent and Building Services	Yes	No	33,503	224,949
Depreciation on Corporate Assets	‘01 No, '02 Yes	Unknown	0	54,587
NUI Employee Benefits and Payroll Tax	‘01 No, '02 Yes	Yes	0	552,618
Unexplained Amts & "High Level" Adjustments	Unknown	Unknown		(85,111)
Totals			$469,559	$1,222,323

Source: OC-20 and Audit Analysis

The problems with shared corporate services relate to cost identification and allocation methodologies and are discussed in Chapter 3.

Without a system that tracks the efforts of NUI’s “headquarters” departments, it is not possible to quantify the amounts that should have been directly charged by the corporate function to Telecom and TIC. Without an attributable cost study, it is not possible to identify the corporate common costs that should have been allocated to Telecom or TIC.

F. Affiliate Transactions - Telecommunications Services Provided by Telecom to NUI and ETG

Telecom provides resold wholesale local, long distance and wireless telecommunications to NUI. Most, if not all NUI telecommunications services costs, including those from carriers other than Telecom, have been billed to NUI and its subsidiaries through billings from Telecom.[10] Telecom represents that NUI is one of its largest customers. Based on the financial data NUI provided, NUI accounted for 18 percent and 7 percent of Telecom's total revenues in 2001 and 2002, respectively. Available data concerning inter-company revenues are summarized below.

Table 7-5
NUI Telecom
Telecommunications Charges to NUI

Source	FY2000 (1)	FY2001	FY2002
Per Telecom financial data (OC-20, OC-93)	Unknown	2,829,398	2,107,128
Per Telecom Inter-company Bills to NUI (OC-91) (2)	Unknown	717,397	2,167,669

Notes:
1. Although we have the 2000 Trial Balance, Telecom did not have an account in 2000 to segregate inter-company revenues. No inter-company bills were available for FY 2000.
2. NUI was unable to provide inter-company bills supporting charges from Telecom for 8 of 12 months in 2001.

Information provided during the audit is insufficient to explain the discrepancy between 2001 recorded and billed amounts.

1. Transfer Pricing

Telecom's primary business is purchasing wholesale telecommunications capacity and services from facilities-based carriers such as Verizon and AT&T for resale on a retail basis. In selling services to NUI and its subsidiaries, Telecom represents that it applies the following markups to the bulk prices it pays to carriers:[11]

Local Services	13-14 percent
Long Distance Wireline	30 percent
Wireless Services	22 percent

Telecom represents that in purchasing services from local exchange telecommunications providers it obtains discounts of approximately 17 to 18 percent from the retail tariffed rate.

[10] Telecommunications services costs billed by Telecom exclude the costs associated with owned or leased customer premises equipment, such as NUI's PBX.

[11] Interview notes of Bill Mulcahy and Tom McGoldrick, Nov. 22, 2002. These markups do not represent Telecom's profit; rather, they reflect Telecom's gross margin before customer service, billing and other costs are considered.

Telecom represents that NUI's discount from Verizon's tariffed rates, after Telecom's markup, is approximately 5 percent.[12]

Affiliate Standards transfer pricing rules require that the services Telecom provides to NUI and ETG be priced no higher than market price. We tested the domestic wireline long distance and wireless phone service prices Telecom charged to NUI and found the following:

- For domestic wireline long distance, both interstate and intrastate, NUI paid Telecom between 5.5 cents and 6 cents per minute on 2002 bills we tested. We believe this is no higher than a common-sense definition of "market" for domestic long distance services.

- Determining whether wireless services are priced at "market" is more complicated than for wireline services because access prices, usage prices and usage levels must be factored into the price comparison under various available wireless service plans. We compared Telecom's September 2002 wireless phone charges to ETG's Northwest regional distribution operations to the charges under wireless plans available from Sprint PCS, AT&T Wireless and Cingular. We found that the amounts charged to the Northwest distribution department were comparable to what would have been charged by larger, unaffiliated wireless carriers.

2. Audit Concerns Relating to Inter-company Telecommunications Services

More than half of the amount billed by Telecom to NUI cannot be identified with specific telecommunications services provided to NUI departments. Examples of unsupported, unidentifiable charges from Telecom's August, 2002 wireless phone bill to NUI include the following:

8/16/02	nw/Arch Wireless 84138450	$11,992.04
8/16/02	Nextel 0000016271-9	$33,294.72
8/16/02	nw/ Cingular 04338853-001	$ 8,862.31

Telecom represents that such items reflect the pass-through of charges for services NUI receives from other carriers that Telecom administers. We requested support for two such charges. After approximately 60 days, NUI represented that the amounts were charges for BellSouth facilities provided to City Gas Florida. However, there was no indication to this effect on Telecom's bills to NUI and based on the lack of identification, no way to identify City Gas Florida as the responsible subsidiary. Through NUI's three-factor formula, a majority of the costs for these Florida facilities were charged to ETG.

Following are the audit concerns related to these charges:

- Inter-company bills do not provide sufficient information to identify the nature of the charges, meaning there is no way for NUI to know whether the charges apply to one of its subsidiaries or to another NUI Telecom customer.

- When asked, NUI Telecom employees could not identify or describe the charges.

[12] Ibid.

- When asked, the NUI corporate employee responsible for managing NUI's telecommunications purchases could not identify or describe the charges.

- There is no inventory or accounting for the telecommunications services that purchases to which the unidentified inter-company billing from Telecom can be traced and reconciled. (Note: On January 14, in response to OC-138, NUI provided a telecommunications inventory of facilities in certain New Jersey locations. There was nothing in this inventory to reference the items in the inventory back to the facilities on the bill from Telecom).

- Unlike charges which can be identified with long distance, wireless and local facilities and services, the unidentified charges from Telecom are not linked with specific NUI departments.

- Unlike charges associated with identifiable services, the unidentified charges do not recur from month to month in any recognizable pattern.

- Combined with the charges for services that can be identified and associated with NUI departments, the unidentified telecommunications charges result in total NUI telecommunications services costs that are significantly higher than either of the two companies we audited. Neither of the other two companies purchase their telecommunications services from an affiliate.[13]

Based on the lack of information available on inter-company bills and the lack of internal control over the departmental responsibility, nature and amount of services NUI purchases from Telecom, it is impossible to determine whether the unidentified charges are, in fact, NUI's responsibility, or whether they represent facilities and capacity that Telecom purchased to provide services to its non-affiliated customers.

As noted above, on January 14, NUI submitted an inventory of facilities in six New Jersey locations. Based on "Additional Comments" submitted by NUI (ETG) on March 12 regarding the draft report, NUI believes the documentation provided in response to OC-138 supports the miscellaneous monthly charges from Telecom to NUI, ETG, and other affiliates. As such, it appears NUI believes that Recommendation V. F. 1. is no longer applicable. In fact, as shown in Attachment 7-1, the documentation provided by NUI <u>does not support</u> any of the miscellaneous monthly charges on Telecom's bill to NUI. Therefore, Recommendation V. F. 1 is still valid and should be implemented by NUI.

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[13] Telecom's bills to NUI for telecommunications services averaged $2.5 million annually for 2001 and 2002, significantly more than New Jersey Resources ($1.4 million per NJR OC-67) or South Jersey Industries ($586,000 per SJI OC-83), even though the NJR figure includes more than $400,000 in data communications charges that may not be included in Telecom's bills to NUI . In FY 2002, Telecom charged NUI and other affiliates $760,000 for wireless services spread over approximately 1,200 employees. In contrast, NJR's FY 2002 wireless services costs were $255,000 spread over approximately 800 employees.

The following table shows excerpts from 1) a sample NUI Telecom bill (dated 10/22/02 for the billing period 9/1/02 to 9/30/02) and 2) each of the "inventory" listings provided in OC-138 that Elizabethtown Gas claims provide the necessary support for the miscellaneous monthly charges by NUI Telecom to NUI. The first section of the table shows the first seven line-items from the "monthly charges" section of the bill described above. The second section is based on a review of the six "inventory" listings provided by NUI in response to OC-138. Data request OC-138 was submitted to Elizabethtown Gas on January 3, 2003 and responded to by Elizabethtown Gas on both January 14, 2003 (classified as Partial) and February 6, 2003 (classified as Complete pending Review).

NUI Corporation and NUI Telecom Analysis of NUI Telecom Bills and NUI "Inventory" Listings			
From NUI Telecom Bill (OC-91)			
Location	Period	Description	Amount
Unknown	9/1/02 to 9/30/02	NW/Sprint 973 383 0000	$ 3.27
Unknown	9/1/02 to 9/30/02	NW/BS 321 M37 6334	280.67
Unknown	9/1/02 to 9/30/02	NW/AT&T 055 083 3284 001	2,723.16
Unknown	9/1/02 to 9/30/02	NW/Sprint 439670806	319.32
Unknown	9/1/02 to 9/30/02	NW/305 Z54 1539	44.08
Unknown	9/1/02 to 9/30/02	NW/AT&T 8000 091 5795	1,963.63
Unknown	9/1/02 to 9/30/02	NW/Broadwing 5375	5,841.97
From NUI Internal "Inventory" Listings (OC-138)			
Location	Period/Update Date	Description	Amount
Bedminster	September 24, 2002	908-719-0944; COT; 3-PAIR-5; BROKERS FAX; BROKERS; Brokers 2FL under TV	Unknown
Erie Street	October 18, 2002	908-289-6732; COT; SEB MODEM PBX; PBX MODEM	Unknown
Green Lane	September 25, 2002	908-355-5787; COT; 1-PAIR-17; Fax; Rich Brzezicki; jack 35	Unknown
New Village	October 19, 2002	908-859-4394; COT; 2-Pair-1; Dial-to-Gas Control; jack 33; Franks Cubicle	Unknown
Plaza	November 14, 2002	908-352-2773; COT; DIAL IN; UBS; SCADA; TELCO HSE PR. 178	Unknown
Rahway	October 30, 2002	732-669-0300; COT; STATIC; Not-In-Use; Spoke to Tom OK Disconnect	Unknown

The "Description" and "Amount" columns from the NUI Telecom Bill section and the "Description" column from the NUI Internal "Inventory" section in the table are listed exactly as they appear on the bill and "inventory" listings, respectively. Also note that the bills provide <u>no location information</u> and the "inventory" listings provide <u>no dollar amounts</u>. There is no way to match the information on the "inventory" listings to the information on the NUI Telecom bill.

Appendix 1 - Interview List

NUI Corporation Interview List			
Date	**Interviewee**	**Interviewer**	**Subject/Topic**
8/15/2002	Paul Chymiy /Pat Keefe	Bob Welchlin/Greg Oetting	Orientation Interview - Affiliate Structure
8/16/2002	Darryl Delauro	Greg Oetting	Accounting Overview
8/28/2002	Darryl Delauro	Bob Welchlin/Andrew Miller	Accounting Overview
8/29/2002	Carol McDermott	Bob Welchlin/Andrew Miller	Corporate Allocations and Overheads
9/17/2002	Fred Bergold	Bob Welchlin/Andrew Miller	Appliance Services Organization, Financials and Tariffs; UBS (attempted)
9/18/2002	Michelle Mustillo	Bob Welchlin/Andrew Miller	Customer Service, Dispatch, Gas Control and Billing
9/19/2002	Michelle Mustillo/Carol McDermott/Barbara Vitale	Bob Welchlin/Andrew Miller	Corporate Allocations
9/19/2002	Carol McDermott/Barbara Vitale	Bob Welchlin/Andrew Miller	Corporate Allocations/a more in-depth discussion beyond the 8/29/02 interview with Carol McDermott
10/11/2002	Tom Rumely	Bob Welchlin	New Jersey Appliance Services
10/16/2002	Corinne Schwartz/Gloria Lopez	Bob Welchlin/Andrew Miller	Customer Service Departments
10/22/2002	Stan Brownell	Bob Welchlin/Andrew Miller	Energy Affiliates, specifically Energy Brokers
10/23/2002	Victor Fortkiewicz	Bob Welchlin/Andrew Miller	Building Usage, Finance, Cost Allocations, Schumaker Recommendation
10/24/2002	Tom Smith	Bob Welchlin/Andrew Miller	Energy Supply
10/24/2002	Carol Sliker/Barbara Vitale	Bob Welchlin/Andrew Miller	Facilities Usage
10/24/2002	Michelle Mustillo	Bob Welchlin/Andrew Miller	Transportation and Dispatch Cost Allocations
10/25/2002	Bob Williams/Brent Cirinelli/John Huff/Jim Forster	Bob Welchlin/Andrew Miller	UBS
11/19/2002	Tom Kuster/Rudy Mach	Bob Welchlin	NUI Energy Services
11/20/2002	Michael Vargas/Madelyn McCarron/Nancy Sobelson	Bob Welchlin	Information Technology
11/21/2002	Patti Helfer	Bob Welchlin	Accounting Overview
11/21/2002	Alex Michals	Bob Welchlin	NUI Telecom
10/24/2002	Jennifer Forno	Bob Welchlin	Energy Brokers
11/22/2002	Tom McGoldrick/Bill Mulcahy	Bob Welchlin	NUI Telecom

Appendix 2 - Data Log

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 1	7/18/2002	8/22/2002	**Fin Data / Chart of Accounts** Please provide a copy of Elizabethtown Gas' and NUI corporation's current chart of accounts and accounting codes. Include keys to the Company's account coding block and all financial and management codes used to classify costs as to type, source, and departmental responsibility. Please also provide any previous versions of the chart of accounts that were in effect at any point since January 2000. If possible, please provide this information in electronic form. ***8/22/02-- Complete -- Received NUI, Elizabethtown Gas, and New Jersey Appliance Business charts of accounts dated August, 2002 [Excel]. Need changes since 1/00 or some indication that no changes occurred.***	35
C	OC 2	7/18/2002	8/16/2002	**Policies and Procedures / Accounting** Please provide copies of the following accounting procedures effecitve during the period 2000 through the present: 1. NUI corporate cost allocation procedures describing allocation methodologies, cost pools, allocation factors and the use of allocation vs. direct assignment. 2. Timekeeping procedures used by employees performing competitive services and employees whose costs are charged to other subsidiaries (e.g. holding company employees). 3. Transfer pricing procedures applicable to pricing of inter-company services. 4. Fully distributed cost procedures applicable to pricing of competitive services. ***8/16/02 Complete pending review. During our interview, Darryl Delauro indicated that Carol McDermott (corp alloc accountant) has a word document covering corporate allocation procedures. 8/26/02-- Partial: Received a response stating that a 1994 corp allocation procedures document is being provided that covers questions #1, 3, and 4, but did not actually receive this procedure. Response to question #2 states they do not do timekeeping records. 8/27/02 Rec'd paper copy of NUI corp procedure discussing allocation of common admin and common gas costs. Last update 1994. 8/16/02 Consider complete. They don't have procedures covering most of these areas. There are no written timekeeping or transfer pricing procedures.***	29

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 3	7/18/2002	9/25/2002	**Policies and Procedures / Accounting List** Please provide a listing or index of all NUI and Elizabethtown written accounting policies and standard practices in effect during the period January, 2000 to present. ***9/25/02--Complete--Received a response stating that no such policies exist in written form.***	69
C	OC 4	7/18/2002	8/16/2002	**Regulatory Filings / New Jersey BPU filings** Please provide a copy of Elizabethtown Gas' New Jersey BPU filings, in electronic format if possible, for 2000 through 2002. ***8/16/02 Complete. filings made available in Bedminster.***	29
C	OC 5	7/18/2002	9/13/2002	**Prior Audit / Implementation Plans** Please provide copies of any implementation plans related to recommendations from the prior compliance audit done by Schumaker & Co. ***9/13/02--Complete--Received a packet of documents that were filed with the BPU as the Company's implementation plan for the recommendations of the Schumaker audit.***	57
C	OC 6	7/18/2002	8/22/2002	**Fin Data / Budgets / RC Rollup** Please provide a chart that shows the roll up of Elizabethtown Gas and other NUI subsidiary department budget responsibility centers through the management structure (e.g. managers, directors, vice presidents, CEO). Include the title of each responsibility center as of January 2001, January 2002, and current. ***8/22/02--Complete . Received responsibility center schedules showing manager and budget coordinator names; received schedules for 2000, 2001, and 2002 [Excel]. Rollups are not obviously incorporated into structure (eg CeO Kean is 401, and there is no hierarchy within the 3 digit code that ties lower levels up to 401), thus, we need mgt org data to evaluate relationships among RCs. RC structure built along the lines of utility (ie Etwn gas) functions. Affiliate-based distinctions (e.g. UBS, TIC) are ad hoc, and do not appear to be built into the structure.***	35
C	OC 7	7/18/2002	8/26/2002	**Allocations / Corporate Allocation Model Data** For fiscal years 2000, 2001 and 2002 to date, please provide, in electronic spreadsheet form if possible, the NUI corporate cost allocation model showing allocations among subsidiaries and underlying allocation formulas. ***8/26/02-- Complete. Received corporate cost allocation models in electronic format [Excel] for 2000, 2001, and 2002***	39

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 8	7/18/2002	8/16/2002	**Regulatory Filings / FERC Form 2 filings** Please provide a copy of Elizabethtown Gas' FERC filings, in electronic format if possible, for 2000 through 2002. ***8/16/02-- Complete -- Received (1) 2000 and 2001 FERC Form 2's for Elizabethtown Gas in electronic format [Excel], (2) 2000 and 2001 Elizabethtown Gas footnotes in electronic format [Word], and (3) a document called "important_changes_2000" in electronic format [Word]. 2002 cannot be provided until fiscal year ends***	29
C	OC 9	7/18/2002	9/12/2002	**NUI Competitive Services List** For fiscal years 2001 and 2002, please provide a list of all products and services, (other than regulated, tariffed, utility services) provided by NUI subsidiaries to third parties. For each service, please indicate whether NUI / Elizabethtown classifies the service or product as "competitive" under the BPU's Energy Competition Standards, Subchapter 5, Affiliate Relations, Fair Competition and Accounting Standards and Related Reporting Requirements. ***9/12/02--Complete--Received a list of products/services offered by NUI subsidiaries to third parties by Business Unit.***	56
C	OC 10	7/18/2002	10/30/2002	**Affiliate / Intercompany Service Descriptions** For each affiliate transacting business with Elizabethtown in fiscal years 2001 and 2002, please provide a list of the products and services provided: 1. By Elizabethtown to affiliates 2. By affiliates to Elizabethtown. Please include a brief description of each product or service to the extent it is not self-explanatory. ***10/17/02--Non-responsive/Incomplete--Response does not describe the SDS Agreement mentioned. It also appears that other agreements should exist, for example, an agreement between UBS and ETG for billing services and possibly others. 10/30/02--Complete pending review--Received an update indicating that no agreement currently exists between UBS and NUI. Follow up regarding any other agreements that may be in place.***	104

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 11	7/18/2002	9/17/2002	**Affiliate / Intercompany Bills** Please provide, in electronic format if available: 1. A copy of all affiliate transaction invoices or statements for intra-company billings to and from Elizabethtown Gas and affiliates for fiscal years 2001 and 2002. 2. Data used to develop or which supports the amounts on the invoices or statements. ***8/16/02 - discussion with Darryl Delauro indicated that affiliate 'invoices' are not maintained. Best way to review this is to look at intercompany payables and receivables transactional data, available electronically from the accounting system. 8/28/02 Non-responsive. Spreadsheet provided that contains a matrix summarizing 1) monthly allocations by dept. from nui, 2) monthly amounts from appliance services for meter work / meter reading, 3) monthly amounts for billing and engineering from UBS, and 4) monthly charges out from etg (destination affiliates not provided). Unacceptable and non-responsive because a) highly summarized, no link to gl (not transaction level), no identification of billed to affiliates for charges by the affiliate. 9/17/02--Consider Complete--Response to OC-43 will provide detail for intracompany billings.***	61
C	OC 12	7/18/2002	9/5/2002	**Affiliate / Intercompany Service Descriptions** For fiscal years 2001 and 2002, please provide a list and brief description of inter-company transactions between Elizabethtown and its parent company or affiliates that do not involve the exchange of identifiable goods or services (e.g. financial transactions involving intercompany loans or dividends, management fees, tax allocation transactions, etc.) ***9/5/02--Complete--Received a brief description of short-term interest and dividend allocations and a schedule [Excel] showing such allocations for fiscal years 2001 and 2002 to date.***	49

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 13	7/25/2002	9/18/2002	**NUI Org Charts / Management** Please provide copies of management organization charts showing the job titles and NUI subsidiary designations in effect for 2000 through present for the following units: NUI Corporation NUI Capital and subsidiaries NUI Utilities, Inc. and subsidiaries ***8/22/02-- Partial - Received Aug, 2002 NUI Corporation top level management chart [Powerpoint]. Did not get management org charts below top mgt level. Did not get charts for 2000 or 2001. 8/28/02 Partial - received a 'tree' fromo the peoplesoft system intended to show reporting relationships. This is supposed to substitute for lower-level management org charts. Only shows relationship between rc numbers and business units. Contains no manager names, contains no employee names or job titles. Unacceptable. Need company phone directory or personnel listing. Discussed with Amey 8/30/02. 9/13/02--Partial--Received Appliance Services management org charts dated 8/10/00 as part of response to OC-5. 9/17/02--Discussed with Amey that Overland needs current charts with this level of detail for all affiliates. 9/18/02--Complete--Received org charts for NUI Utilities, UBS, and NUI Appliance Services NJ. This data, coupled with the employee data from OC-25 completes this request.***	55
C	OC 14	7/25/2002	9/13/2002	**Regulatory Filings / BPU Compliance Plans** Please provide copies of Elizabethtown's "compliance plans" for complying with BPU Energy Competition Standards in effect since the beginning of 2000. ***9/13/02--Complete--Received the Company's 2000, 2001, and 2002 Compliance Plans.***	50
C	OC 15	7/25/2002	8/22/2002	**Fin Data / Accounting & Mgt Reports** Please provide a list of recurring management and financial accounting reports available from the NUI and Elizabethtown financial systems. ***8/22/02-- Complete. Received a listing of 15 recurring management and financial reports [Excel]. Seems like a low number, but may be complete.***	28

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 16	7/25/2002	8/22/2002	**NUI Org Charts / Legal** Please provide copies of NUI legal organization charts showing all subsidiaries and ownership relationships for the years 2000 through present. Please indicate the following for each subsidiary: 1. whether consolidated into NUI for accounting 2. percentage ownership 3. whether operating or non-operating 4. number of employees ***8/22/02-- Complete-- Received an NUI Corporation legal organization chart as of June, 2002 [Powerpoint]. No indication of number of employees, percentage ownership or operating / non-operating. No charts for 2000 or 2001.***	28
C	OC 17	7/26/2002	10/30/2002	**Affiliate / BPU Reporting** Please provide, for the period January 2000 to present, copies of the following records required by the BPU's Affiliate Relations, Fair Competition and Accounting Standards and Related Reporting Requirements: 1. "Affiliate Discount Reports" that Elizabethtown has filed since January, 2000 (see 14:4-5.3 (g)) 2. Records of contracts and related bids between Elizabethtown and NUI or competitive services affiliates. (see 14:4-5.4 (k)) 3. Reports of utility / affiliate employee transfers (see 14:4-5.5 (r) (2)) ***10/17/02--Non-responsive/Incomplete--Received responses for all three parts. Part 1: states no discounts were provided; unsure if a report/letter is still filed with the BPU stating such. The response does not state that no reports were filed and therefore does not specifically answer the question. Part 2: Received two contracts/bids. We are unsure if all such contracts between ETG and NUI (or its competitive affiliates) have been provided. Need to follow-up. Part 3: states no employees were transferred. However, in a similar question (OC-27), the Company provided a list of employees transferred. Unsure why different answers provided. Need to follow-up. 10/30/02--Part 1: consider complete, Part 2: consider complete, Part 3: consider complete (no transfers occurred between affiliates but employees did "transfer" from department to department within affiliates)***	96

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 18	7/26/2002	8/16/2002	**Fin Data / Consolidating Stmts / 2000 and 2001** For the years 2000 and 2001, please provide financial statements for each NUI affiliate that maintains separate books. ***8/16/02-- Complete--Received summarized 2000 and 2001 consolidating balance sheets and income statements (4 B/S and 4 I/S for 2000 and 5 B/S and 5 I/S for 2001) for holding company-level entities (NUI Corp, NUI Utilities, NUI Capital, NUI Ventures, and, in '01 NUI Virginia Gas). [Excel] Need to determine if this the lowest level of detail they maintain, if not, need to get lower level. Possibly TBs (OC-20) will fill this requirement.***	21
C	OC 19	7/26/2002	10/30/2002	**Policies and Procedures / Affiliate Utility Rel** Please provide copies of any Elizabethtown, NUI or NUI subsidiary written policies or procedures addressing the following subjects: 1. Joint corporate support services (utility and affiliate) 2. Joint use of computer systems and related controls to ensure separation of data access 3. Joint marketing, advertising, promotion services 4. Employee transfers and employee loans or sharing 5. Sharing / provision of utility non-customer, non-public proprietary data to affiliates 6. Sharing / provision of utility customer data to affiliates 7. Separation of utility and affiliate employees and board members 8. Procedures to be used by utility customer service and marketing personnel relating to provision of competitive services information to customers ***10/17/02--Non-responsive/Incomplete--Received a set of "policies/procedures" addressing the following subjects. However, the response does not indicate which of the subjects below (1-8) the information provided addresses. From an initial review, it does not appear that the majority of the subjects are covered by the response. If no such policies or procedures exist for any of the areas below, a response stating such is still required. 10/30/02--Complete--Received a response indicating that no written policies or procedures exist for items 1-6 or 8. Item 7 was addressed in the Company's compliance plan filed as a response to OC-14.***	96
C	OC 20	8/28/2002	9/25/2002	**Fin Data / Trial balances** Please provide, in electronic format, business unit level (e.g. NUIHQ, ETGCO, ABSJS) trial balances for all business units for fiscal years 2000, 2001 and 2002 (through the third quarter). Please update 2002 for the complete fiscal year when available. ***8/30/02 Partial. Of 23 Bus Units, rec'd 21 trial balances for 2002 (NUIEV and NUIVT missing). 2000 and 2001 not received. 9/18/02--Nearly complete--Received the 2000 and 2001 trial balances. Still missing the NUIEV and NUIVT 2002 trial balances. 9/25/02--Complete--Received the remaining trial balances.***	28

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 21	8/28/2002	11/26/2002	**Fin Data / Budget Variance Reports** Please provide, for fiscal years 2000, 2001, and 2002 through July, copies of RC level budget variance reports for all RCs. ***12/5/02--Complete--Consider complete as of last update, 11/26/02. Received the necessary 2000 and 2001 budget variance reports. 11/26/02--Update--Received additional budget variance reports for fiscal years 2000 and 2001. Need to review to determine if they are the missing RC's. It appears no new budget variance reports were supplied for fiscal year 2002. OC-89, requesting 2002 reports through the end of the fiscal year is complete. No additional follow need for 2002 budget variance reports. 9/17/02--Incomplete/Partial--Received RC level budget variance reports for fiscal years 2000, 2001, and 2002 to date in electronic format. Variance reports for multiple RC's were not provided. For example, no RC variance reports were provided for NUI Telecom or UBS (billing services) responsibility centers, among others. 10/21/02--Complete pending review--Received additional budget variance reports for NUI Telecom, UBS, and other affiliates. 11/12/02--Partial--Upon review, discovered that we are still missing multiple budget variance reports.***	90

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 22	8/28/2002	11/7/2002	**Related Party Transactions / Liberty Ventures** Please refer to the response to OC-8, specifically the document entitled "Important Changes 2000.doc." Please provide: 1. Copies of lease agreement(s) between Liberty Hall Joint Venture and NUI Corp or its subsidiaries or affiliates in effect since the beginning of fiscal year 2000. 2. Please provide percentage interests of Kean and, if applicable, other NUI officers, in Liberty Hall Joint Venture. 3. Regardless of whether they meet FERC or SEC related party disclosure requirements, please identify (provide a list of) all partnerships, joint ventures and other business entities (other than Liberty Hall JV) that are not consolidated into NUI in which a) NUI officers have (or since the beginning of FY 2000 have had) an ownership interest and b) the entity has (or since the beginning of fiscal year 2000 has had) a business relationship with NUI or its subsidiaries, (e.g. a lease, provision of a service, provision of products, etc., by or to NUI or its subsidiaries). [Entities in which the only business relationship is the provision of regulated, tariffed utility services by an NUI utility to the entity may be excluded.] For each listed entity, please identify (briefly describe) the business relationship (e.g. lease of office space to NUI corporate) and indicate the period since the beginning of FY 2000 that it has been effective. ***9/26/02--Partial--Received a copy of the Liberty Hall Joint Venture lease agreement. Need to review lease to determine if part 2 is answered. Still need a list of any other related party interests/transactions (part 3). 10/16/02--Received another copy of the lease agreement (part 1), a description of Kean's ownership interest (asks for percentage), and a reply to part 3. Still need Kean's percentage interests for part 2. 10/30/02--Received a response indicating that no other officers participate in the Liberty Hall Joint Venture. Still need Kean's percentage interest to complete part 2. 11/7/02--Consider Complete--Received a response clarifying part 2 and part 3.***	71
C	OC 23	8/28/2002	10/17/2002	**Regulatory Filings / Competitive Svc Advice Ltrs** Please provide copies of NUI / Elizabethtown Gas advice letters filed by NUI with the BPU concerning approvals related to affiliates or competitive services since the interim affiliate standards were effective in 2000. ***10/17/02--Complete pending review--Received a response stating no such letters exist.***	50
C	OC 24	8/28/2002	10/16/2002	**NUI / Internal Audit / List** Please provide a list of internal audits completed since the beginning of fiscal year 2000. ***10/16/02--Complete pending review--Received a list of internal audits for 2000 and 2001. No audits were completed in 2002.***	49

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 25	8/28/2002	9/6/2002	**NUI / Employee List** Please provide lists of NUI and subsidiary employees with business unit and responsibility code designations as of 9/30/00, 9/30/01 and 9/30/02. ***9/5/02--Partial--Received fiscal year 2002 list of employees with responsibility code and business unit designations. Lists for 2000 and 2001 were not provided. 9/6/02--Complete--Received fiscal year 2000 and 2001 employee lists with responsibility code and business unit designations.***	9
C	OC 26	8/28/2002	9/18/2002	**Policies and Procedures / Procurement** Please provide a copy of NUI procurement / purchasing procedures in effect since the beginning of fiscal year 2000. ***9/18/02--Complete--Received a copy of NUI's procurement policies--"policies and procedures, purchasing and accounts payable" dated January 1, 1999.***	21
C	OC 27	8/28/2002	1/13/2003	**Utility / Employee Transfers** Please provide 1. a list of employees transferred between Elizabethtown Gas and affiliates / other business units (including New Jersey Appliance Business) from the beginning of fiscal year 2000 through the present. Please update this list as necessary through the end of fiscal year 2002. On this list, please provide: Employee name Transferred from Business Unit Transferred from Job Title Transferred to Business Unit Transferred to Job Title Transfer date. 2. For each applicable transfer, identify any payments made by the acquiring affiliate to the affiliate from which the employee transferred and indicate the basis for the payment (I.e. pct of salary, etc.). ***1/13/03--Complete--Received an official response to Part 2. No transfers occurred and no payments were made during the audit period. 10/30/02--Received clarification that no transfers occurred between affiliates; the "transfers" provided involved personnel moving from department to department within affiliates. The updated response still does not address part 2 of the request. 10/7/02--Partial/Incomplete--Received employee transfer lists for 2000, 2001, and 2002. The lists provided do not appear to provide a clear documentation of the transferred from unit and transferred to unit. The response does not address part 2 of the request.***	138

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 28	8/28/2002	9/13/2002	**NUI / Employee Newsletters** Please provide a copy of NUI and / or Elizabethtown Gas company newsletters / employee publications for the period October, 2000 through the present. ***9/13/02--Complete--Received copies of NUI/Elizabethtown Gas newsletters for fiscal years 2000 through the present.***	16
C	OC 29	8/28/2002	10/9/2002	**Policies and Procedures / Customer Service** Please provide a copy of all policies and procedures applicable to the Florida call center serving New Jersey gas customers and any other call centers serving New Jersey gas customers since the beginning of fiscal year 2000 covering the following subjects: 1. Compliance with New Jersey BPU affiliate standards applicable to call center activities in the areas of non-discrimination, information disclosure, customer enrollment, customer referral, service terms and conditions, response to unsolicited customer inquiries regarding competitive services, the use of the Elizabethtown Gas name in connection with competitive services, etc. 2. Allocation of call center assets, operating expenses and efforts / activities between a) New Jersey and Florida and b) competitive services and traditional regulated utility services, including all procedures relating to timekeeping by employee providing joint / common services. ***10/9/02--Complete--Received response addressing both questions of the request.***	42
C	OC 30	8/28/2002	9/13/2002	**Utility / Customer Service / Scripts** Please provide copies of all sales, marketing, customer service, safety and other scripts, suggested language or suggested approaches to dealing with customers or answering customer questions applicable to customer service order / inquiry, field services (IM&R) or marketing employees effective since the beginning of fiscal year 2000. ***9/13/02--Complete--Received copies of NUI/ Elizabethtown Gas call center scripts dated August 2002, April 15, 2002, November 20, 2001, July 2001, and June 2001.***	16

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 31	8/28/2002	1/22/2003	**NUI / Advertising** Provide copy or scripts, as applicable, of all advertising placed in local media that involved Elizabethtown Gas or New Jersey competitive services during the period since the beginning of fiscal year 2000. ***1/22/03--Complete--Received response stating that all advertising has been provided. 1/14/03--Partial--Received Yellow Page advertising used by NUI during the audit period. However, as described in an e-mail to NUI on 1/7/03, in order for NUI to complete the request, Overland needs a statement that ALL advertising has been supplied in the Company's various responses. Such a statement has not yet been provided. 10/21/02--Received additional advertising materials. Need to follow up. Still appears incomplete. 9/13/02--Incomplete/Partial--Received copy of a description of one local commercial for NUI Appliance Services. Does not appear to be a complete set of scripts for all advertising placed in local media for the period fiscal year 2000 to date.***	147
C	OC 32	8/28/2002	9/23/2002	**Utility / Customer Information Systems** Provide the names of the information systems used to store customer records for sales, marketing, service provision /usage, billing or "care" purposes for the following businesses during the period from the beginning of fiscal year 2000 to the present: Elizabethtown Gas New Jersey Appliance Services City Gas Florida Florida Appliance Services Florida Plumbing Services NUI Telecom Utility Business Services NUI Energy Services NUI Energy Brokers Identify the name of the Information Technologies employee with primary responsibility for maintaining the system, if proprietary, or interacting with the vendor, if the system is licensed from a 3rd party. ***9/23/02--Complete--Received the name of the information system utilized by ETG, CGF, App Bus NJ, App Bus Florida, Plumbing Bus Florida and Energy Brokers and the name of the individual responsible for maintenance of the system.***	26

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 33	8/28/2002	11/7/2002	**Business Plans / Utility and NUI Corp** Please provide copies of NUI and Elizabethtown Gas business and / or strategic plans applicable to planning for fiscal years 2000, 2001 and 2002. ***9/23/02--Partial--Received business plans for Elizabethtown Gas (and the other NUI distribution companies) for fiscal years 2000, 2001, and 2002. Still need corporate level strategic/business plans for NUI. 10/16/02--Non-Responsive pending determination that NUI has no strategic plan - Received a set of slides showing NUI Corporate goals. Does not appear to be the strategic plan. 11/7/02--Complete pending review--Received a response stating that the plans sent on 10/16/02 (the GTSM program) represent NUI's business planning framework but that "strategic plans" are prepared at the business unit level. Overland will ask for these business unit level plans in additional data requests.***	71
C	OC 34	8/28/2002	10/16/2002	**Utility / Customer Referrals to Affiliates** Provide a list of Elizabethtown Gas customers referred to affiliates for fiscal years 2000, 2001 and 2002 to date. (This excludes customers referred to the New Jersey Appliance business unit. It includes customers who may have been referred to NUI Energy Services, NUI Energy Brokers, etc.) ***10/16/02--Complete pending review--Received a response stating that no affiliate referrals of this type have occurred.***	49
C	OC 35	8/28/2002	10/16/2002	**Policies and Procedures / Affiliate Standards** Please provide copies of policies and procedures applicable to compliance with New Jersey BPU affiliate and competitive services standards not covered in data requests OC-2, OC-3, OC-26 or OC-29. Please include copies of any policies and procedures involving the transfer or joint use of non-customer specific information between the gas utility and its affiliates, transfer or shared use of trademarks, logos, names, licenses and patents, transfer or shared use of employees, and transfer or shared use or proprietary or purchased / licensed software or information systems. ***10/16/02--Complete pending review--Received a response stating that no additional policies and procedures (not already supplied in prior data requests) are in existence.***	49
C	OC 36	8/28/2002	9/18/2002	**Utility / Large Customer List** Please provide a current list of Elizabethtown Gas Company's 20 largest customers measured by gas volumes or revenue. (If available, a standard recurring sales report summarizing revenue, volumes and / or similar sales statistics by customer may be substituted for an ad hoc list applicable to precisely 20 customers.) ***9/18/02--Complete--Received a copy of Elizabethtown Gas' 20 largest customers sorted by volumes.***	21

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 37	8/28/2002	9/13/2002	**Utility / Advertising / Bill Inserts** Please provide copies of Elizabethtown Gas customer bill inserts for fiscal years 2000, 2001 and 2002 to date. ***9/13/02--Complete--Received copies of Elizabethtown Gas customer bill inserts for fiscal year 2000 to the present. 11/4/02--Received additional customer bill inserts and a newspaper advertisement.***	16
C	OC 38	8/28/2002	11/1/2002	**Utility / Customer Service / System Access** Please make available / provide access to systems / files containing records of Elizabethtown Gas customer requests and inquiries (service and repair orders and billing inquiries) for gas and appliance service, including requests for service intiation, repair and discontinuation for fiscal years 2001 and 2002 to date. ***11/1/02--Complete pending review--Received a response indicating that access to systems will be provided during our IT interviews.***	65
C	OC 39	8/28/2002	10/18/2002	**NUI / Internal Audit / Risk Assessment** Please provide a copy of the NUI internal audit department's audit risk assessments for fiscal years 2000, 2001 and 2002. ***10/18/02--Complete pending review--Received a copy of the 2000 and 2001 audit risk assessments. No such assessment exists for 2002.***	51
C	OC 40	8/28/2002	10/18/2002	**Allocations / 3 Factor Formula Support** Please provide copies of the source reports for number of customers and budgeted labor used as input for the calculation of the corporate '3 factor formula' for fiscal years 2000 through 2003. ***9/19/02 Interview with Carol McDermott indicated that WINS and CSS data for the utilities may not have been archived and may not be available for years prior to '02. Her source for other affiliates (e.g. telecom) was emails sent by those affiliates and she is not sure what underlying support will be available. 10/16/02--Partial and Non-responsive--Received a written response and several spreadsheets. The labor detail is acceptable. The customer data is non-responsive--is not a source document and does not indicate what the source of the data is. 2003 data still not provided. 10/18/02--Complete pending review--Received source data.***	51
C	OC 41	8/28/2002	9/13/2002	**Affiliate / Utility Affiliate Service Agreements** Please provide a copy of any service agreements or contracts between Elizabethtown Gas and affiliates, including NUI corporate. ***9/13/02--Complete pending review--Received copies of service agreements, including SDS agreement between ETG and NUI Energy and Agency agreement between ETG and NUI Energy Brokers.***	16

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 42	8/28/2002	9/26/2002	**Allocations / Facilities Costs** Please provide all documentation to support the collection and assignment and / or allocation of facilities costs to business units and affiliates for budget and regulatory jurisdictional segregation purposes. This should include copies of all building maps, leases, indexes, listings, spreadsheets, and other workpapers documentation containing information used to calculate fully allocated facilities costs and floorspace usage by business units and affiliates. At a minimum, such documentation should show the usage of floorspace, measured in square feet, by affiliate, identify the cost per square foot, separately identify costs (in total and per square foot) for rent, maintenance, security, and utilities. It should include costs for NUI's Bedminster offices, 'Plaza' offices and any other locations at which facilities costs are collected for budget and regulatory jurisdiction assignment / allocation to business units and / or affiliates. Please provide all maps, documents or spreadsheets required to show the calculation of costs for each type of costs (I.e. rent vs. maintenance vs. utilities) and each location (I.e. Bedminster, the Florida call center, etc.). To the extent the documentation exists in electronic form (I.e. spreadsheets), please provide in electronic form. ***9/26/02--Complete--Received copies of the Company's lease agreements for all of its facilities. The Company noted that all of the information requested in this DR should be found in the leases. 10/9/02--Update--Note that the Rahway lease was not sent with OC-42. This lease was specifically requested in OC-44.***	29
C	OC 43	8/28/2002	9/17/2002	**Fin Data / GL Transactions** Please provide a download, in Excel or Access format, of all general ledger transactions, including all fields, for fiscal years 2000, 2001 and 2002 through July for ETG, the New Jersey Appliance Business unit, and any other business unit that rolls into ETG for regulatory reporting purposes. ***9/13/02--Complete pending review--The Company will provide in CD format, the general ledger transactions for 2000, 2001, and 2002 through July. 9/17/02--Complete--Received general ledger transactions for both ETG and the New Jersey Appliance Business for 2000, 2001, and 2002. Note that the Appliance Business transactions for 2000 were recorded on the Gas Company's books with separate RC numbers.***	20
C	OC 44	9/19/2002	10/9/2002	**Appliance Services / Rahway Lease Agreement** Please provide the lease agreement between NUI Corporate and New Jersey Appliance Services for the Rahway facility utilized by the appliance affiliate. ***1/7/03--Requested clarification in an e-mail to Amey Mesko. Overland wants to know if there is a lease OR other agreement between NUI d/b/a Elizabethtown Gas and the New Jersey Appliance Business for the use of the Rahway facility that describes how the costs associated with the facility are distributed. In essence, does the appliance business use the building for free (or is there a payment to NUI or an allocation of cost to the appliance business)? 10/9/02--Complete--Received a response stating that the facility in question is owned by NUI d/b/a Elizabethtown Gas.***	20

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 45	9/19/2002	1/10/2003	**Appliance Services / Asset Transfer Journal Entry** Please provide all journal entries (with supporting detail) for all asset transfers made between NUI/Elizabethtown Gas and New Jersey Appliance Services when the appliance affiliate separated its books from the utility. ***1/10/03--Complete pending review--Received journal entry detail with other supporting documentation.***	113
C	OC 46	9/19/2002	10/10/2002	**Appliance Services / Financial Statements** As a supplement to OC-18, please provide individual balance sheets and income statements for each of NUI's appliance businesses, including: ABNJS ABFLS ABFLP ABNCS ***1/15/02--Update--Received a cover sheet for OC-46 stating that 2002 balance sheets were attached. No other data related to OC-46 was sent with the cover. 10/10/02--Complete--Received the fiscal year 2001 balance sheets and income statements for the appliance businesses. The affiliates did not exist in fiscal year 2000. The Florida plumbing business did not exist until fiscal year 2002.***	21
C	OC 47	9/19/2002	10/11/2002	**Appliance Services / Floor Price Workpapers** Please provide the workpapers prepared by Rand Smith to support the Company's floor pricing of Comfort Care Service Contracts, Comfort Care Service Contracts with Preventative Maintenance Care, Maintenance Services, and Non-contract Appliance Services. ***10/11/02--Complete--Received the workpapers maintained by NJNG for its floor pricing.***	22
C	OC 48	9/19/2002	10/18/2002	**Appliance Services / Floor Price Workpapers** Please provide the workpapers prepared by Fred Bergold as a part of the Company's floor price review (for the tariffs effective August 2001). ***10/18/02--Complete pending review--Received floor price review workpapers.***	29
C	OC 49	9/19/2002	10/10/2002	**Appliance Services / Floor Price BPU Filings** Please provide any letters to / filings with the BPU related to the Company's floor pricing. Provide any information related to the tariffs that was sent to the BPU in 2001 and any additional information sent to the BPU since the tariffs were first approved (I.e. summary data based on the Company's floor price review, etc.) ***10/10/02--Complete--Received letters filed by NUI with the BPU related to its floor pricing for both fiscal year 2001 and 2002.***	21

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 50	9/19/2002	10/11/2002	**Appliance Services / Product Profitability Reports** Please provide copies of the New Jersey and Florida Appliance Services' "product line profitability" reports for fiscal years 2000, 2001, and 2002 through July. ***10/11/02--Complete pending review--Received New Jersey and Florida Appliance Services profitability reports for 2001 and 2002 through July. The business units did not exist in 2000.***	22
C	OC 51	9/19/2002	10/10/2002	**NUI Board Reports** Please provide copies of the 4 page "NUI Board Report" and the 2 page "ETG Board Report" for the period fiscal year 2000 to the present. ***10/10/02--Complete--Received copies of the requested reports for fiscal year 2000, 2001, and 2002.***	21
C	OC 52	9/19/2002	10/16/2002	**Affiliate / UBS / Billing Services Cost Allocation** Please provide the workpapers and all supporting detail prepared by Fred Bergold and/or Bob Williams used to allocate billing costs from UBS to ETG (RC 107) and all other business units. ***10/16/02--Complete pending review--Received workpapers (also responding to OC-56) for UBS allocations of billing costs.***	27
C	OC 53	9/19/2002	10/11/2002	**Appliance Services / Contracts** Please provide copies of all service contracts between New Jersey Appliance Services and customers. ***10/11/02--Complete--Received copies of the contract used for New Jersey Appliance Services customers.***	22
C	OC 54	9/19/2002	12/20/2002	**Allocations / 3 Factor Formula Support** Please provide the "Invision report" that shows budgeted labor for fiscal year '00, '01, '02, and '03 by business unit and responsibility code that reconciles to the budgeted labor amounts used to derive the 3 factor formula in the corporate allocation model. ***12/20/02--Complete--Received an explanation that "Nvision" reports contain data from Peoplesoft that is downloaded into Excel format. The response states that OC-40 contains the labor data that is not provided in OC-54. This data also originates in the Company's Peoplesoft system. Consider complete. 10/16/02--Partial--Received budgeted labor data for fiscal years 2000 through 2003. However, the labor data does not appear to be from an "Invision report." Instead, it appears to be Excel spreadsheets. In addition, certain affiliates appear to be missing from the data submitted. Need to follow-up.***	92

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 55	9/19/2002	11/26/2002	**Allocations / Customer Service Function** Please provide the source documents and workpapers used to obtain and / or calculate the call volume and accounts receivable arrears factors used to allocate the costs of customer care / customer service / credit and collections functions in fiscal years '02 and, when available, '03. Workpapers include any documents that show the calculation of allocation factors. Source documents include company reports or third party documents that contain support for the input used to calculate the allocation factors; in this case, call volumes and aged accounts receivable dollars by company or business unit. (Note: we were informed that this information was in the custody of Corrin Schwartz). ***11/26/02--Consider complete--Any follow-up documentation needed beyond what was provided here will be asked in new data requests. 10/15/02--Originally classified as Complete on 10/8/02--changed classification after reviewing spreadsheets. Linked information is missing and unsure if all months have been provided. Need to follow up. 10/8/02--Partial--Received allocation workpapers with source documents for the call center (customer care and collections functions).***	68
C	OC 56	9/19/2002	10/16/2002	**Affiliate / UBS / Billing Services Cost Allocation** Please provide the workpapers and supporting source documents used to develop the customer bill allocation factor(s) used to allocate the costs of the billing function from UBS (rcs 641,642,643) to ETG and other affiliates for fiscal years '00, '01, '02 and, when available, '03. Workpapers include any documents that show the calculation of allocation factors. Source documents include company reports or third party documents that contain support for the input used to calculate the allocation factors; in this case, customer bill counts by company or business unit. (Note: we were informed that this information was in the custody of Fred Bergold). ***10/16/02--Complete pending review--Received workpapers (also responding to OC-52) for UBS allocations of billing costs.***	27
C	OC 57	9/19/2002	10/17/2002	**NUI Shared Directors** Please identify all companies not consolidated into NUI Corporation's financial statements with which NUI Corporation has a business relationship (is either a customer or a seller) and with which NUI shares one or more officers or directors. Please identify the shared directors and their role in the companies other than NUI, describe the business relationship (ie what is bought / sold) and the approximate dollar magnitude of goods and services exchanged during the period FY '00 through FY '02. ***10/17/02--Complete pending review--Received a response indicating NUI non-consolidated business relationships.***	28

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 58	9/19/2002	10/22/2002	**Allocations / Insurance Costs** Please provide: a. copies of the worksheets showing insurance company-provided distributions of workers compensation insurance expense to affiliates for the period FY '00, 01, '02 and '03. b. workpapers or other documentation supporting the insurance company-provided workers compensation insurance amounts by affiliate / business unit or confirm our understanding from the 9/19/02 interview with Barbara Vitale that no such documentation exists at NUI. ***10/18/02--Partial--Received response for part a, including copies of the Workers' Compensation policies for 2000, 2001, 2002, and 2003. No response was received for part b. 10/22/02--Complete--Received response for part b indicating that the support provided for part a serves as the Company's workpaper documentation.***	33
C	OC 59	9/19/2002	10/23/2002	**Allocations / Insurance Costs** a. Copies of the "NUI Property and Boiler" worksheet or equivalent supporting insurance company-provided allocations of property insurance to states for the period FY '00, '01, '02 and '03. b. Please provide copies of workpapers supporting the allocation of state-level property insurance costs discussed above to individual NUI subsidiary companies / business units or confirm our understanding from the 9/19/02 interview with Barbara Vitale that no such workpapers exist NUI. ***10/10/02--Partial--Received a letter from Sedgwick (insurance company) giving a dollar breakdown of premiums by property location. Not sure if this covers the years requested. Part b. was not explicitly answered. The letter may serve as the "workpapers." Need to follow up. 10/23/02--Complete--The letter provided serves as the Company's workpapers for its property insurance allocation. Per discussion with Barbara Vitale, the amounts in the letter apply to the years requested--2000, 2001, 2002, and 2003.***	34

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 60	9/19/2002	10/22/2002	**Allocations / Insurance Letters & Workpapers** Please provide: a. copies of the "IRMC Inc" letters or equivalent showing insurance company-provided general liability insurance amounts allocable to each affiliate during the fiscal years '00, '01, '02 and '03. b. workpapers supporting the allocation of general liability insurance amounts to each affiliate / business unit '00, '01, '02 and '03 or confirm our understanding from the 9/19/02 interview with Barbara Vitale that no such workpapers exist at NUI. ***10/10/02--Partial--Received insurance company invoices for the general liability insurance. The invoices represent ETG's share of the general liability insurance. However, the question asks for the allocation to each affiliate, not just ETG. Can not tell if the support relates to the years requested. Part b. was not explicitly answered. The invoices may serve as the "workpapers." Need to follow up. 10/22/02--Complete--Received clarification that the support provided for part a shows the allocation to more than just ETG. Received a response for part b indicating that the support for part a serves as the Company's workpapers.***	33
C	OC 61	9/19/2002	10/9/2002	**Allocations / Facilities Workpapers** Please confirm our understanding from the interview with Barbara Vitale on 9/19/02 that no workpaper support exists for the square footage assignments of rentable space to NUI affiliates / business units / departments used for the purpose of allocating facilities rent and utilities costs in the Bedminster and Plaza facilities or provide the available workpaper support. ***10/9/02--Complete--Received response clarifying our understanding of interview responses. During our interview on October 23, Barbara Vitale provided a copy of a building management report containing budget information for the union facility (GVA Williams report). We classified it as partly responsive to this request.***	20

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 62	9/19/2002	11/7/2002	**Allocations / Employee Benefits** Please provide workpaper and / or source document support for actual amounts in the following employee benefit categories charged to departments and / or business units through the corporate allocation model during fiscal years '00, '01 and '02 through August or most recent month available: Post Retirement-Medical Expense Employee Benefits Administration -Emp Cntrib Employee Benefits-Stock Grants Serp-Benefits Contributns Pension Plan-Benefits Contrib S & I Plan- Employer Match Med Benefit contribution-Actives Empl Dental-Benefits- Actives Vision Benefits Contribution Core Medical Benefits-ER Bonuses ***10/16/02--Non-responsive/Partial--Received a written response and several spreadsheets. Request asks for the support of actual amounts and budgeted data was provided. No source documents (or workpapers) were provided for most areas (such as pension, SERP, FAS 106 expenses, etc.) We may be able to use the 2000 and 2001 data if we are able to trace between the books and cost pools. 11/7/02--Complete pending review--Received a response stating that based on discussions held between Overland and NUI, support/explanations will be provided during interviews with the appropriate NUI accounting staff person(s).***	49

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 63	9/24/2002	10/9/2002	**Allocations / Billing, Gas Control, Dispatch** The following request is based on unanswered questions from an interview with Michele Mustillo on 9/18/02. For each of the following RC's, please provide a written explanation (with supporting documentation if necessary) to the following questions based on a budget analysis of the RC's: Billing (RC 107) 1) Explain the nature of "outside services" provided in 2000. Gas Control (RC 167) 1) Explain each cost line for the RC and confirm if SCADA costs are in this RC. 2) Explain why VGCHQ and VGCPC are excluded from allocation. 3) Explain the nature of "outside services" and software maintenance. Dispatch (RC 222) 1) What allocation method was used in 2000? Was it the three-factor method? 2) What RC holds CGF's dispatch costs? 3) Explain the nature of "outside services" in 2000 and 2001; does it relate to meter changes? 4) Why are "outside services" gone in 2002? ***10/9/02--Complete--Received follow up responses for all questions in the request.***	15
C	OC 64	10/18/2002	11/19/2002	**NUI Job Descriptions** Please provide, in electronic format if possible, copies of all available job / position descriptions for Elizabethtown Gas Company, NUI and NUI subsidiaries with employees. ***11/19/02--Complete--Received the majority of the missing job descriptions. Consider done on 11/19/02. 11/12/02--Partial--Upon review, determined that multiple job descriptions are still missing. 11/4/02--Complete pending review--Received copies of requested job descriptions.***	32
C	OC 65	10/18/2002	10/30/2002	**Utility / Customer Service / Customer Records** Referencing the October 11 interview with Tom Rumely, please provide, a printout of all available Customer Service System customer record screens for a customer in the test system used for training. ***10/30/02--Complete pending review--Received a response stating that the printouts provided as a response to OC-66 address this request.***	12

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 66	10/18/2002	10/24/2002	**Utility / Customer Service / Job Aids** Reference the October 16, 2002 interview with Corinne Schwartz and others concerning the customer service function. Please provide all available "job aids" used by customer service personnel to assist in answering questions about appliance services and other subjects. ***10/24/02--Complete pending review--Received the customer service representative "job aids" used to answer appliance services questions (and other questions) asked by customers.***	6
C	OC 67	10/18/2002	11/4/2002	**Appliance Services / Promotions** During the October 11 interview of Tom Rumely, Mr. Rumely indicated that the Appliance Services department provided discounts on appliance installations (for example he describe a promotion of $150 off for installation a furnace, $200 for a/c, $400 off for both) He also indicated that customers have been offered a year's free contract service with installations. Regarding this: 1. Please provide a complete description of each appliance service / installation promotions offered since the beginning of FY 2000. For each promotion, please include the amount of the promotion, the terms of the promotion, the time periods that it was in effect, and the sub-sets of Elizabethtown's territory or customer base to which the promotion was limited.. 2. Please provide a copy of all written promotional and advertising materials produced and distributed in connection with these promotions. ***11/4/02--Complete pending review--Received a description of the Appliance Services' appliance installation discounts, including promotion date, advertising medium, product, terms, duration, etc. (part 1) as well as copies of promotional materials (part 2).***	17
C	OC 68	10/18/2002	11/4/2002	**NUI / Internal Audit / Selected Reports** Reference response to data request OC-24. Please provide copies of the following internal audit reports: Energy Brokers Review (FY 2000 and 2001 reports) Natural Gas Procurement (FY 2000 and 2001 reports) TIC Review (FY 2000) TIC Post Office Contract External Audit Assistance (FY 2000) NUI Telecom (FY 2001) IT Procurement and Standardization (FY 2001) Purchasing / Accounts Payable (FY 2000, 2001) ***11/4/02--Complete pending review--Received copies of internal audit reports or alternative documentation.***	17

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 69	10/18/2002	10/24/2002	**Appliance Services / Marketing Plan** Referencing the October 11 interview with Tom Rumely, please provide, for Fys 2001 through 2003, the written marketing plan for appliance services that are produced by Tom and Mylene Arza. ***10/24/02--Complete pending review--Received the 2002 marketing plan for the Appliance Business. The response also stated that no such plan existed for 2001 and the 2003 plan has not yet been completed.***	6
C	OC 70	10/18/2002	10/30/2002	**Affiliate / UBS / Customer Contracts** Please reference the NUIExpress article dated Feb. 22, 2001 - UBS Opens Eyes With Another Customer. Please provide 1. a list of the non-affiliated customers UBS has converted to Wins CIS to date. 2. Copies of all existing service contracts between UBS and between UBS and Kearny Water, between UBS and South Orange Village Water and between UBS and between UBS and East Orange Water Commission and UBS licensing agreements with these customers. ***10/24/02--Partial--Part 1: Complete--Received a list of non-affiliated customers UBS has converted to WINS CIS. Part 2: Partial--Received the UBS agreement with South and East Orange Water but did not get the Kearny Water agreement. 10/30/02--Complete pending review--Received a response stating that no Kearny agreement exists; it is under the master agreement with United Water.***	12
C	OC 71	10/18/2002	10/30/2002	**Utility / Service Delivery Improvement Program** Please provide a. A list of employees who have served on Service Delivery Improvement (SDI) teams since January, 2001. a. A copy of documents, including as presentations, plans, announcements and reports, prepared by SDI teams since January, 2001. Please include documents used in the presentation "Strategies for Improving Service Delivery" presented to officers as described in the August, 8, 2001 issue of NUIExpress. ***10/30/02--Complete pending review--Received a list of "SDI team" employees (part 1) and a presentation dated 7/27/01 covering strategies for improving service delivery (part 2).***	12
C	OC 72	10/18/2002	11/4/2002	**Fin Data / Rating Agency Reports** For fiscal years 2000, 2001, and 2002 (if available) please provide copies of all rating agency reports (S&P and Moody's) for both NUI Corporation and NUI Utilities. ***11/4/02--Complete pending review--Received Moody's Investors Service research and ratings reports for NUI Utilities dated 2/18/97, 7/10/01, 9/9/02, 9/18/02, 10/21/02. Received S&P rating report dated 8/10/00.***	17

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 73	10/18/2002	10/24/2002	**Allocations / Dispatch Support** Please provide: 1) a brief description of how dispatch costs are allocated to both the distribution companies and the appliance businesses. Indicate if separate affiliates each use separate dispatch centers. 2) the workpapers and supporting source documents used to develop the dispatch allocation factor(s) used to allocate the costs of the dispatch function to all affiliates utilizing that function for 2000 through 2003. If each affiliate uses its own dispatch center, provide any dispatch cost information available. Workpapers include any documents that show the calculation of allocation factors. Source documents include company reports or third party documents that contain support for the input used to calculate the allocation factors. ***10/24/02--Complete--Part 1: Received an overview of the dispatch allocation during an interview with Michele Mustillo on 10/24/02. A new data request will be created to ask several specific follow up questions. Part 2: The workpapers documenting the dispatch allocation were already provided as part of other data requests. Customer number data was provided in response to OC-40 and the allocation percentages used for dispatch (between ETG and CGF) were provided in response to OC-55.***	6
C	OC 74	10/18/2002	11/8/2002	**Allocations / Corporate Allocation Model Data** As a supplement to OC-7, please provide (in electronic spreadsheet form if possible) the NUI corporate cost allocation model showing allocations among subsidiaries and underlying allocation formulas for fiscal year 2003. ***11/8/02--Complete pending review--Received a response stating that no corporate level model exists for 2003. The process has been decentralized; each department is responsible for its own allocations. May need to follow up with new data request(s) to clarify how the new process works.***	21

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 75	10/28/2002	1/22/2003	**Allocations / Dispatch Support** Please provide follow up information that could not be conclusively confirmed during our 10/24/02 interview with Michele Mustillo: 1) For Elkton, Valley Cities, and Waverly Gas Companies, a brief description clarifying if these companies use the Green Lane dispatch center or if their own personnel serve as dispatchers. (Note: from the interview it appears that these companies do not use the Green Lane facility and do not receive an allocation of the costs) 2) For the appliance businesses in New Jersey, Florida, and North Carolina, a brief description clarifying which companies use the Rahway facility. (Note: from the interview it appears that both the New Jersey and Florida [starting in 2001] appliance businesses use the "dispatchers" in Rahway and that North Carolina does not use Rahway.) If there is shared useage of the facility, please explain how costs are allocated between the benefitting affiliates. 3) Please determine and describe how the costs of the FSS system (used by both the utility affiliates and the appliance affiliates) are tracked and allocated to all benefitting affiliates (both utility and appliance). 4) Please determine how the Rahway facility costs (for the space used by the appliance business(es) for dispatch) are allocated to the New Jersey and / or Florida appliance businesses. (Note: this is in part a facilities question based on an interview with Tom Rumely). ***1/22/03--Complete pending review--Received updated response referring to OC-143. OC-143 addresses the outstanding question. 1/10/03--Update/Partial--After reviewing the response while conducting cost allocation analysis, Overland determined that the answer to question 4 is not complete. The answer does not state how the Rahway costs were allocated in FY '01 and '02. The answer only addressed FY '03. 11/8/02--Complete pending review--Received answers for each of the questions in the request.***	86
C	OC 76	10/24/2002	10/24/2002	**Allocations / Transportation** Please provide the workpapers and supporting source documents used to develop the transportation allocation factor(s) used to allocate the costs of vehicles to all affiliates utilizing that function for 2001 and 2002. Workpapers include any documents that show the calculation of allocation factors. Source documents include company reports or third party documents that contain support for the input used to calculate the allocation factors. ***10/24/02--Complete--Received the transportation allocation workpapers supporting the 2001 and 2002 allocations.***	0

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 77	10/28/2002	11/6/2002	**Utility / Gas Supply Plan** For fiscal years 2002 and 2003, please provide the annual NUI Utilities "broad plan" for gas supply as discussed in our interview with Tom Smith on 10/24/02. ***11/6/02--Complete pending review--Received copies of NUI Utilities' "broad plans" for gas supply.***	9
C	OC 78	10/28/2002	11/1/2002	**Affiliate / NUI Energy Brokers / Bus Plan** Please provide, as discussed in our interview with Stan Brownell on 10/22/02, the NUI Energy Brokers business plans for fiscal years 2002 and 2003. ***11/1/02--Complete pending review--Received the NUI Energy Brokers 2002 and 2003 "One Year Tactical Plans."***	4
C/NR	OC 79	10/28/2002	1/13/2003	**Affiliate / UBS / Bus Plan** Please provide, as discussed in our interview with Bob Williams on 10/25/02, the UBS business plans for fiscal years 2002 and 2003. ***1/13/03--Complete/Non-responsive--Received a response stating that UBS does not have a 2003 business plan. Consider complete/non-responsive. 11/4/02--Partial--Received the 2002 UBS business plan.***	77
C	OC 80	10/28/2002	11/19/2002	**Affiliate / UBS / Customer Contracts** Please provide, as discussed in our interview with Bob Williams and Jim Forster on 10/25/02: a) the United Water Master Service Agreement and attachments. b) the GIS services contract with Alabama Gas. ***11/19/02--Complete--Reviewed the agreements in the field.***	22
C	OC 81	10/28/2002	11/11/2002	**Affiliate / UBS Advertising** Please provide, as discussed in our interview with Bob Williams and Jim Forster on 10/25/02, for both WINS/CIS and GIS and other mapping services, marketing materials handed out at trade shows (brochures, handouts describing products, etc.). ***11/11/02--Complete pending review--Received WINS marketing materials.***	14

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 82	10/28/2002	11/8/2002	**Affiliate / UBS / Billing Stats** For fiscal years 2000, 2001, and 2002, please provide: a) the total bills processed under WINS/CIS for non-affiliated customers and b) by utility, the total bills processed for NUI Utilities customers by using NUI's proprietary customer service system. ***11/8/02--Complete pending review--Received billing statistics for 2000, 2001, and 2002.***	11
C	OC 83	10/28/2002	11/8/2002	**Affiliate / UBS / Profitability Reports** Please provide all available UBS product / service profitability reports for fiscal years 2001 and 2002, as discussed in our interview with Bob Williams on 10/25/02. ***11/8/02--Complete pending review--Received UBS "comparative income statements" showing activity from 2001 and 2002 and budgeted numbers for 2003.***	11
C	OC 84	10/28/2002	11/8/2002	**Affiliate / NUI Telecom & TIC / Bus Plans** Please provide, for fiscal years 2002 and 2003, the business plans for NUI Telecom and TIC. ***11/8/02--Complete pending review--Received NUI Telecom and TIC business plans for 2002 and 2003. NUI Telecom and TIC are in the same plan for 2002. TIC (sold by the Company) is not included in the NUI Telecom 2003 plan.***	11
C/NR	OC 85	10/28/2002	1/13/2003	**Affiliate / Virginia Gas / Bus Plans** Please provide, for fiscal years 2002 and 2003, the business plans for Virginia Gas, NUI Ventures, and NUI International. ***1/13/03--Complete/Non-responsive--Received a response stating that there are no business plans for Virginia Gas, NUI Ventures, or NUI International for 2003. Overland never received an official response stating if 2002 business plans were available for NUI Ventures or NUI International. Overland did not receive such plans and assumes they do not exist despite the lack of an official response indicating so. 11/8/02--Partial--Received the 2002 Virginia Gas business plan. Still need the 2003 Virginia Gas plan as well as the 2002 and 2003 NUI Ventures and NUI International plans.***	77
C	OC 86	10/28/2002	11/12/2002	**Affiliate / NUI Energy / Bus Plan** Please provide, for fiscal years 2002 and 2003, the business plans for NUI Energy. ***11/12/02--Complete pending review--Received the 2002 and 2003 NUI Energy business plans.***	15

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 87	10/28/2002	1/8/2003	**Fin Data / Budget Variance Reports / FY 2003** Please provide, as soon as available, budget variance reports showing budgets for all utility, NUI corporate and affiliate departments for fiscal year 2003 (I.e., update OC-21 for 2003 data as soon as the 2003 budget is completed). ***1/8/03--Complete pending review--Received a CD containing 2003 budget variance reports. It appears that reports have been provided for nearly all RC's.***	72
C	OC 88	10/28/2002	11/4/2002	**NUI Employee List / FY 2003** Please provide, as soon as available, an electronic version of the 2003 employee list showing employees in departments consistent with the 2003 budget. (I.e., update OC-25 for 2003 data as soon as the 2003 budget is completed). ***11/4/02--Complete pending review--Received the 2003 employee list.***	7
C	OC 89	10/28/2002	11/15/2002	**Fin Data / Budget Variance Reports / FY02 Complete** Please provide, as soon as available, budget variance reports showing budgets for all utility, NUI corporate and affiliate departments for the complete fiscal year 2002 (I.e., update OC-21 for 2002 data through September 30, 2002). ***12/5/02--Update--Consider complete as of last update, 11/15/02. 11/15/02--Complete pending review--Received a CD containing updated budget variance reports (through 9/30/02) for all RC's. Upon initial review, it appears that one report may still be missing, but this may not have been an active RC # for 2002. Need to follow-up.***	18
C	OC 90	10/28/2002	12/9/2002	**Affiliate / UBS / Sample Client Billings** Please provide, for the following UBS clients, copies of the client billings and all supporting materials sent with the billings or maintained internally as bill support, either on paper or electronically, for all bills sent during the month of September, 2002 to the following clients: 1. For GIS / mapping services - Alabama Gas 2. For Wins CIS and related billing and account conversion services - United Water. 3. For Wins CIS and related billing and account conversion services - South Orange. ***12/9/02--Complete pending review--Received September bills for Alabama Gas, United Water (multiple bills), and South Orange. In voluminous file.***	42
C	OC 91	11/6/2002	11/14/2002	**Affiliate / NUI Telecom / Bills** Please provide, for fiscal years 2000, 2001, and 2002, all bills and supporting documentation issued by NUI Telecom to Elizabethtown Gas and any other NUI affiliates. ***Complete. Provided landline and wireless bills 6/01-9/02 in electronic format. (Did not provide bills prior to 6/01).***	8

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 92	11/6/2002	11/18/2002	**Affiliate / NUI Energy / Reports** Please provide, for fiscal years 2001 and 2002, copies of all financial and operating reports used by the management (Tom Kuster, Rudy Mach, etc.) of NUI Energy. For example, provide any financial statements and cost/management accounting reports used to monitor and control the affiliate. ***11/18/02--Complete pending review--Received a set of financial reports for NUI Energy.***	12
C	OC 93	11/6/2002	11/12/2002	**Affiliate / NUI Telecom / Reports** Please provide, for fiscal years 2001 and 2002, copies of all financial and operating reports used by the management of NUI Telecom. For example, provide any financial statements and cost/management accounting reports used to monitor and control the affiliate. ***11/12/02--Complete pending review--Received 9/30/01 Balance Sheet, 5 different Income Statements for the period ended 9/30/01 (by month, comparison with 2002, etc.), 9/30/02 Balance Sheet, and 9/30/02 Income Statement.***	6
C	OC 94	11/15/2002	2/20/2003	**Fin Data / Budgets / RC Rollup** Please provide the "active RC matrix" for budget year 2003. The equivalent document for years 2000, 2001 and 2002 was provided in response to OC-6. ***2/20/03--Complete pending review--Received a response with the missing 2/7/03 file. The file lists NUI allocations, the "originating" affiliate, the "benefitting" affiliate(s) and account numbers, etc. Appears to provide the same type of information as OC-6. 2/7/03--Update--Received electronic (e-mail) response stating that a file with "all fiscal 2003 allocations for NUI" was attached. No such file was attached. Will follow-up regarding missing file. 1/6/03--Non-responsive--Update based on a more detailed review of the data. The response provides the RC's used in 2003 but does not provide the allocation relationships between the RC's and the cost objectives (affiliates). Overland needs to see which affiliates receive allocations of the costs incurred within the RC's. The format does not need to be the same as OC-6 (matrix format), but allocation relationships need to be provided. 12/6/02--Complete--Received NUI's "active RC matrix" for 2003. The format is different than what was used in the responses to OC-6 but it appears to include approximately the same RC's as prior years.***	97

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				Auditor Management Letters	
P	OC 95	11/15/2002		Please provide, for fiscal years 2000, 2001, and 2002: a) any "Management Letters" sent by the Company's external auditors to NUI or any of its affiliates (covering any findings, recommendations, etc.) based on their audits. b) management representation letters provided to the Company's external auditors by NUI or any of its affiliates. ***1/27/03--Update/Still Partial--Received follow-up stating that the 2002 letter is still not available. 1/10/03--Partial--Received letters for Part b). Received 2000 and 2001 letters from the Company's external auditors. Still need the 2002 letter when available.***	119

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				Fin Data / GL Transactions	
C	OC 96	11/15/2002	12/24/2002	Please refer to the response to OC-43. Please provide:	39

A. Updates of the files "10-01-01 through 7-31-02 etgco detail.xls" and "10-01-01 thorugh 7-31-02 abnjs detail.xls" to cover the period 10-01-01 through 9-30-02 (in electronic format, pivot table, as provided in OC-43).

B. Electronic general ledger detail for NUI Corp (the corporate entity indicated as 231.101 on ETG's chart of accounts) for FY 2001 and 2002 through 9/30/02 (all accounts in the same format (pivot table) provided for ETG and NJ Appliance in OC-43).

C. For all NUI entities other than ETG, New Jersey Appliance Services and NUI Corp, general ledger detail ONLY for activity in the entity's intercompany "due from / due to" accounts. Please provide a separate file for each affiliate in the same electronic format (pivot table) provided in OC-43. Please provide the data for FY's 2001 and 2002 (through 9/30/02). "Entity" includes, but is not limited to, the following:

NUI Corp (231.101 on ETG's books)
The unidentified affiliate recorded as 231.104 on ETG's books
CGF (231.105 on ETG's books)
NUI Energy Solutions (231.106 on ETG's books)
NUI Energy (231.107 on ETG's books)
NUI Energy Brokers (231.108 on ETG's books)
NUI Environmental (231.109 on ETG's books)
NUI Ventures (231.110 on ETG's books)
NUI Capital (231.111 on ETG's books)
UBS (231.112 " " ")
NUI Telecom (231.113)
NUI South (231.116)
ABNJS, ABFLS, SBNCS (231.117, 118 and 119)
Elkton, NC, Valley Cities & Waverly gas companies (231.123, 124, 125, 126)
VGCHQ (231.127)
VGCDC 9231.130)
VGCPC (231.131)

[Please note that for NUI Corp, ETG and NJ Appliance (items A & B), the request is for ALL GL detail (all accounts), for all other entities (item C), the request is limited to GL detail for the Due to / Due from accounts.]

12/24/02--Complete pending review--Received data for Parts A, B, and C.

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 97	11/15/2002	12/6/2002	**NUI Board Meeting Minutes** Please make available for review during our field visit November 19-21 NUI's Board of Director meeting minutes for meetings held in FY 2001 to date. ***12/6/02--Complete pending review--The Company stated that board minutes are available for review in the field (at NUI's Bedminster location).***	21

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 98	11/15/2002	1/16/2003	**Fin Data / JV Detail / 231.101 NUI Corp Interco** Please provide copies of the following journal vouchers along with all supporting detail for the indicated periods (Vouchers including activity in ETG account 231.101 - Due to / Due From NUI Corp): For 2001: APACR02254 (Accounts Payable) 2001 month 8 (This JV for the requested month includes a credit of $20,528,403 to ETG account 231.101) APPAY03685 (AP Payments) 2001, month 12, credit to ETG 231.101 of 1,124,836 APPAY12701 (AP Payments) 2001, month 12, credit to ETG 231.101 of 949,012 IU2001026 (To reclass payroll exp & year end tax adjustments), 2001, month 12, dr. To ETG 231.101 of 9,688,065 IU2001003 (Mellon Bank Activity) 2001 months 1, 2 3 SIU20011063 (Mellon Bank Activity) 2001 month 4 thru 2001 mnth 11 SIU200163A (Mellon Bank Activity) 2001 month 12 SIU2001025 (To allocate gas costs) - 2001 month 2 thru 2001 month 12 SIU2001001 (Record monthly wire transfer receipts, etc.) - 2001 months 8 through 12 SIU2001002 (Record OSS Netting, nets & wires, etc) - 2001 months 8 - 12 RIU2001102A (Untitled), month 12, only, cr. to ETG 231.101 of 206,689 QIU20011002 (To allocate BU's dividends paid), 2001 months 3, 6, 9 For 2002 2002002833 (To record additional PIC on ETG), 2002 month 6, dr to ETG 231.101 of $37,233,932 APACR03417 (Accounts Payable), 2002 month 8, cr.to ETG 231.101 of $34,738,276	62

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				APPAY04248 (AP Payments), 2002 month 10, cr.to ETG 231.101 of $3,529,869 HQMBL0502 (To allocate mobile phone costs for Jan thru April) , 2002 month 8 IU20020010 (To record Gas Cost Allocation), 2002 month 4, cr.to ETG 231.101 of $18,694,659 IU20020019 (To record Enron wire transfer on 11/30) 2002 months 2 & 3, cr.&dr. to ETG 231.101 of $42,900,000 IU20020025 (To record Gas Cost Allocation), 2002 months 8 & 9 QIU2002002 (To allocate dividends), 2002 months 3, 6, 9, cr.to ETG 231.101 of approx. $2.1 to $2.4 million each. REC2002060 (to record est.pension credit), 2002 month 2, dr.to ETG 231.101 of $150,039 RIU2002013 (To record estimated pension credit (RC001), month 2, dr.to ETG 231.101 of $150,039. SIU2002025 (To record gas cost allocation), 2002 months 1,2,3 & 10, cr.to ETG 231.101 ranging from $10.4 million to $17.8 million SIU2002002, (To record nettings / reversals), 2002 months 1,2,3 SIU 2002014, (to record nettings / reversals), 2002 months, 8,9,10 SIU2002063, (Mellon Bank Activity), 2002 months 8,9,10 ***1/16/03--Complete pending review--Appears that remaining journal voucher support was provided. 12/24/02--Partial--Received a set of journal voucher support. Not all requested support was provided.***	

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 99	11/15/2002	12/24/2002	**Fin Data / JV Detail / 231.101 NUI Corp Interco** Please provide copies of the following journal vouchers along with all supporting detail for the indicated periods (Vouchers including activity in ETG account 231.101 - Due to / Due From NUI Corp): For 2001: ALO0000001 (Corp Alloc-Acctg Svs-551, Interest Expense-ETGCO) 2001 month 6; credit of 332,377 ALO0000010 (Corp Alloc-Executive) month 1; credit of 97,369 ALO0000016 (Bedminster Rent) months 4 and 5 and (Direct Alloc-Ins-Gen Liab) months 5 through 12 ALO0000018 (Corp Alloc-Cred & Col-237, etc) month 1; credit of 135,926 ALO0000018 (Direct Alloc-Ins-Work Comp, etc.) months 4 and 5 ALO0000022 (Corp Alloc-Corp Acct-556, etc.) month 12; credit of 59,664 ALO0000032 (Corp Alloc-Int Audit-408, etc.) months 9 and 10 ALO0000035 (Corp Alloc-Cust Care-219, etc.) months 2 and 3 ALO0000049 (Corp Alloc-IS-Tec Sv-503, etc.) months 11 and 12 ALOTRN0066 (Trans alloc-direct-exp 401) months 5 through 7 For 2002: ALO0000006 (Fringe Benefit Allocation) months 5 through 7 ALO0000018 (Fringe Benefit Allocation) months 5 through 7 ALO0000040 (Payroll Tax Exp Allocation) months 1 through 4 ALO0000078 (Realty Admin-Rent Real Prop, etc.) months 1 and 2 ALO0000079 (Direct Alloc-Budg Svs, etc.) months 9 and 10	39

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				ALO0000095 (Corp Alloc-Investor Rltn-415, etc.) months 9 and 10 ALO0000101 (Corp Alloc-Trng & Org Dev-474, etc.) months 2 through 4 ALO0000104 (Corp Alloc-IS-Tec Sv-503, etc.) months 5 through 8 ALO0000111 (Corp Alloc-Legal & RA-482, etc.) months 2 through 4 ALOTRN0065 (Trans alloc-direct exp-401) months 2 through 5, 8, and 10 ***12/24/02--Complete pending review--Received JV detail. No other support provided.***	
C	OC 100	11/15/2002	11/26/2002	**Fin Data / JV Detail / 231.112 ETG-UBS Interco** Please provide copies of the following journal vouchers along with all supporting detail for the indicated periods (Vouchers including activity in ETG account 231.112 - Due to / Due From UBS) For 2001: RIU2001005 - (OAS Capitalized Labor for FY2001 - budget portion), 2001 month 6, SIU2001006 (UBS Intercompany Sales, Revenue) , months 9, 10,11,12 SIU2001061 (Check Deposits, First Union), 2001 month 4 and months 9, 10, 11, SIU200161A (First Union Bank Activity, Sept. 2001), 2001 month 12 For 2002: RIU2002020 (To record monthly OAS service chg to Dist Svcs), 2002 month 10, cr.to ETG 231.112 of $102,708 2002003168 (to credit for lower fieldbook development costs), 2002 month 7, dr.to ETG 231.112 of $25,000 SIU2002006 (Exter & Inter Sales & COGS) - 2002 months 1, 2 and months 9, 10 ***11/26/02--Complete pending review--Received voucher support for the requested entries.***	11

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 101	11/15/2002	12/9/2002	**Fin Data / JV Detail / 231.107 ETG-NUIEN Interco** Please provide copies of the following journal vouchers along with all supporting detail for the indicated periods (Vouchers including activity in ETG account 231.107 - Due to / Due From NUI Energy) For 2001: 2001001059 (TO CLEAR REVENUE SUSPENSE), 2001 month 4, cr.to ETG 231.107 of $1,558,029 ERI001901 (ETG Revenue Interface), 2001 month 12, cr.toETG 231.107 of $3,823,553 STD2001062 (ToAllocate ETGCO Revenue), 2001 months 8, 9 For 2002: ERI0010102 (ETG Revenue Interface), 2002 month 4, cr.toETG 231.107 of $9,551,334. 2002003155 (To cash out NUIE - SDS Balance), 2002 month 7, cr.to ETG 231.107 of $2,359,900 SIU2002068 (To reclass I/C revenue interface, etc) 2002 months 8,9,10 ***12/9/02--Complete pending review--Received voucher support for the requested entries.***	24

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 102	11/15/2002	11/22/2002	**Fin Data / JV Detail / 231.108 ETG-NUIEB Interco** Please provide copies of the following journal vouchers along with all supporting detail for the indicated periods (Vouchers including activity in ETG account 231.108 - Due to / Due From NUI Energy Brokers): For 2001 SIU2001037 (To record OSS Actuals), 2002 months 9, 10, 11 For 2002 IU20020020 (To record Enron settlement), 2002 month 3, cr.to ETG 231.108 of $49,270,977 IU29929939 (To record reclassification of interco financial trs), 2002 month 4, cr.to ETG 231.108 of 1,423,695 SIU2002035 (To record OSS actuals and prior months true ups), 2002 month 10, cr.to ETG 231.108 of 2,048,190 SIU2002056 (To record unrealized gain / losses, etc.), 2002 months 4, 5, 6, 7 & 8 SIU2002057 (to record realized gains / losses, etc), 2002 months 4, 5, 6, 7 & 8 ***Complete s.t. check. Provided on-site by Patrick Migliaccio.***	7
C	OC 103	11/19/2002	1/14/2003	**Affiliate / NUI Energy / Retail Office Enterpr Sys** Please provide a copy of the Retail Office Enterprise System description found in the capital management committee authorization for funds as discussed in the interview with Tom Kuster and Rudy Mach. ***1/14/03--Complete pending review--Received NUI Capital Management Committee's "Capital Authorization Request".***	56
C	OC 104	11/19/2002	1/10/2003	**Policies and Procedures / Accounting** Please provide the following discussed in the interview with Pat Helfer on November 19, 2002: 1. The list of intended accounting policies and procedures 2. The high-level power point presentation that describes re-engineering og corporate accounting processes. ***1/10/03--Complete pending review--Received responses to Parts 1 and 2.***	52

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				Allocations / 1995 Stipulation and Support	
C	OC 105	11/19/2002	1/27/2003	Please provide the following from the 1 inch "corporate allocations procedures" in the rates library: From behind the first tab in the binder: 1. December 6, 1995 letter from Patricia Keefe to Eugene Provost Re: NUI Cost Allocation Procedure - Docket GM93090390 with attachments (total 3 pages) 2. August 22, 1995 letter from Patricia Keefe to Nusha Wyner Re: NUI Cost Allocations - sibmitted for settlement purposes only (8 pages - 4 page letter plus 1 pg each attachments A,B,C & D) 3. NUI Corporation - Company Wide Administrative Policy & Procedures - Subject: Cost Allocations, Number 2, supersedes original issue (this copy is a redlined version), 23 pages. 4. State of New Jersey Board Of Public Utilities Dkt GM93090390 Stipulation Concerning Cost Allocation Procedures - 5 pages. From behind the 4th tab in the binder: 5. NUI Corporation - comments of AUS Regarding BPU Staff's Proposed Cost Allocation Procedure - Draft 6. The copy of the stipulation in the binder is not signed. Please indicate whether the stipulation was signed and became effective. If the stipulation was modified or superseded by later stipulations, orders or letters of understanding, please provide all subsequent modifying materials. 7. The AUS comments were stamped "Draft." Please also provide the final AUS comments. If the comments were introduced or incorporated into testimony on behalf of NUI, please provide a copy of the testimony. ***1/27/03--Complete pending review--Received responses for Parts 6 and 7. 1/8/03--Partial--Received the requested items for Parts 1 through 5. Parts 6 and 7 were not addressed in the response.***	69

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 106	11/21/2002	1/9/2003	**Allocations / IT** Please provide the following: 1. The Controllers letter describing the Company's software capitalization policy (discussed by Mike Vargas in the interview on 11/20/02) 2. The email Mike Vargas sent to employees in dept 503 describing the requirements regarding recording time associated with capital projects. 3. All other Controller's and / or CFO accounting policy letters issued since the beginning of FY 2000. ***1/9/03--Complete pending review--Received a follow-up stating that the e-mail copy received by Overland on 12/11/02 is the only correspondence related to time recording sent by Mike Vargas to employees. 12/11/02--Partial--Received Part 1: the "Controller's letter" describing the Company's software capitalization policy and responses to Parts 2 and 3. The response to Part 3 states that no other letters exist. The e-mail provided in Part 2, however, does not appear to address time recording requirements associated with capital projects (Part 2 appears non-responsive).***	49
C	OC 107	11/21/2002	12/11/2002	**Allocations / IT** Please provide detailed descriptions of the following information systems discussed during the 11/20/02 interview of Information Technology employees: 1. The customer management system (CMS) 2. The customer account services system (CAS) described as being "under development" Please indicate whether any of the cost associated with development of these systems is being or was captalized. Describe and differentiate between costs that were capitalized and those expensed. ***12/11/02--Complete--Received brief descriptions of the systems in Parts 1 and 2. Both descriptions, especially the response to Part 2, lack detail but will be considered complete.***	20
C	OC 108	11/22/2002	12/24/2002	**Affiliate / NUI Telecom & TIC / Marketing Mat** Please provide a copy of the marketing materials package that describes the two-year price guarantee discussed by Tom McGoldrick during the audit interview on November 21. ***12/24/02--Complete--Received the requested marketing materials.***	32

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				Affiliate / NUI Telecom & TIC / Marketing Mat	
C	OC 109	11/22/2002	12/24/2002	As discussed by Tom McGoldrick, please provide a copy of the 1999 NUIT analysis of NUI Corporation's telecommunications charges that demonstrated the amount of money that NUI Corporation could save by having NUI Telecom provide its telecommunications services. ***12/24/02--Complete pending review--Received workpapers showing an analysis of telecommunications charges.***	32
				Affiliate / NUI Telecom & TIC / Wireless Call Plan	
C	OC 110	11/22/2002	2/7/2003	Please provide copies of literature describing all NUI Telecom wireless calling plans (rates, terms, etc.) available to NUI Corporation. Please provide copies of this literature to the extent available for 2001, 2002 and current available plans (Reference the interview with Al Michals on 11/21/02. Mr. Michals indicated that he has NUIT's literature on recent calling plans. NUIT, as the company providing the plans, should have copies of the plan information for the past two years.) ***2/7/03--Complete pending review--Received updated responses providing roaming charge information and other information (a link to the Verizon and Cingular web sites for coverage areas. 1/28/03--Update--Received amended response with more information, including links to the Verizon and Cingular web sites. 1/13/03--Partial--Received amended response providing the effective dates of the plans and the "terms" of the plan (all simply listed as month to month). The response still does not provide information regarding coverage areas, roaming charge information, etc. Again, this is not the literature that Overland expected to receive based on the interview with Al Michals. 12/24/02--Incomplete and partially responsive--Received a one page listing of "local" and "national" calling plans. The page has NUI Telecom letterhead at the top of the sheet and lists the plans as "Verizon Wireless Plans." The response does not indicate what time periods the plans relate to or provide much detail of the terms associated with the plans. Does not indicate whether contracts apply, as they typically do in the industry. Does not indicate rates for roaming. Does not indicate coverage areas, etc. etc. It is not "literature" as described in the interview.***	77

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 111	11/22/2002	12/24/2002	**Affiliate / NUI Telecom & TIC / Carrier Contracts** Please provide copies of the following: 1. Contracts between NUI Telecom and the facilities-based wireless carriers (e.g. Nextel, Verizon) from which NUIT purchases wholesale service for resale to NUI Corp in New Jersey, applicable to the period FY 2001 to present. 2. Contracts between NUI Telecom and the facilities-based wireline carriers (e.g. Sprint, AT&T, Verizon) from which NUIT purchases wholesale service for resale to NUI Corp in New Jersey, applicable to the period FY 2001 to present. ***12/24/02--Complete pending review--Received data for Parts 1 and 2. For Part 1, received contracts with AT&T and Verizon and for Part 2, received contract with Sprint.***	32
NR	OC 112	11/22/2002		**Affiliate / Energy Brokers / Risk Mgt Policy** Please provide a copy of the NUI Energy Brokers Risk Management Policy discussed with Jenifer Forno on November 22. ***1/22/03--Update--Received new response again stating that the document is available at NUI's Bedminster location. Still non-responsive. 12/6/02--Non-responsive--The Company stated that the NUI Energy Brokers' Risk Management Policy is available for review in the field (at NUI's Bedminster location). This document should be provided to us for use in our office.***	112
C	OC 113	11/22/2002	12/24/2002	**Affiliate / NUI Telecom & TIC / IT Assessment NUIT** Please provide a copy of the Information Technologies telecommunications provide assessment done in 1999 when NUI Telecom was being considered as NUI Corp's telecommunications provider. (Noted by Tom McGoldrick during the interview on Nov. 21). ***12/24/02--Complete pending review--Received workpapers (appear to have been prepared in July, 1999) showing analysis of telecommunications charges.***	32
C	OC 114	11/26/2002	12/19/2002	**Affiliate / Shared Officers and Directors** Please provide the most current list of the officers and members of the board of directors for NUI Corporation and all of its affiliates, including Elizabethtown Gas. Please note the effective date that each person assumed his / her position. ***12/19/02--Complete pending review--Received a current listing of officers and directors.***	23
C	OC 115	11/26/2002	1/6/2003	**Fin Data / Consolidating Stmts / 2002** Refer to the electronic consolidating financial statement data provided in response to OC-18 for Fys 2000 and 2001 in files such as 0901bsa, bsb, bsc, and 0901isa, isb, isc, etc. Please provide the equivalent reports for FY 2002 (I.e. 0902bsa, bsb, bsc, etc. and 0902isa, isb, isc, etc.) ***1/6/03--Complete pending review--Received a set of consolidating balance sheets and income statements. It appears that all necessary financials have been provided.***	41

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 116	11/26/2002	12/19/2002	**Allocations / Follow-up Questions / McDermott** Please provide answers to the follow-up questions related to NUI's three-factor formula, facilities allocations, and employee benefits allocations submitted to Amey Mesko on behalf of Carol McDermott. ***12/19/02--Complete--Received responses to questions.***	23
C	OC 117	11/26/2002	2/21/2003	**Allocations / Follow-up Questions / Vitale** Please provide answers to the follow-up questions related to NUI's facilities and insurance allocations submitted to Amey Mesko on behalf of Barbara Vitale. ***2/21/03--Update/Complete pending review--Received answers to the follow-up questions. However, the answers to some of the questions did not fully address all parts of the questions (in part due to the fact that Barbara Vitale is longer longer with NUI). Consider complete until reviewed further. 1/22/03--Complete/Non-responsive--Received a response stating that Barbara Vitale is no longer an employee of NUI. The follow-up questions have not been answered.***	87
C	OC 118	11/26/2002	1/7/2003	**Allocations / Follow-up Questions / Mustillo** Please provide answers to the follow-up questions related to NUI's gas control allocations submitted to Amey Mesko on behalf of Michele Mustillo. ***1/7/03--Complete--Michele Mustillo provided an answer to the question.***	42
C	OC 119	11/26/2002	1/8/2003	**Allocations / Follow-up Questions / Schwartz-Lopez** Please provide answers to the follow-up questions related to NUI's customer care allocations submitted to Amey Mesko on behalf of Corinne Schwartz and Gloria Lopez. ***1/8/03--Complete--Received a print-out of the source documents for the amounts in question.***	43

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
				Fin Data / NUI Utilities / GFRBs	
C	OC 120	11/26/2002	12/6/2002	Refer to consolidating financial statements for FY 2001 provided in response to OC-18. With regard to Gas Facilities Revenue Bond (GFRB) debt: A. Please explain the relationship between the $178 million in GFRBs on ETG's books and the $20 million CGF's books. If the two liabilities are entirely separate and not related, please so state. B. Please explain the $20 million elimination associated with GFRBs on NUI Corp's 2001 consolidating balance sheet. C. Please explain why was there no similar elimination on the FY 2000 consolidating balance sheet. D. If ETG and CGF have $178 million and $20 million in outstanding GFRB debt at the end of FY 2001, respectively, how can it be that NUI Corp only has $178 million in total. 2. With regard to Notes Payable - Associated Companies, please explain the nature of the $3 million shown on the FYE 2001 NUI Corporation balance sheet in the "NUI Consolidated" column. A. If this is an intercompany payable, why does it not eliminate at the corporate level? B. If it is not an intercompany payable, what is it? What is the nature of the payable, to whom or to what entity is it owed, and what gave rise to it? ***12/6/02--Complete pending review--Received answers to each of the questions posed in the request. Must review further to determine if any follow-up is needed.***	10

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
P	OC 121	11/26/2002		**Fin Data / Debt Term Sheets** Please provide a copy of "term sheets" summarizing the terms and conditions of all existing NUI Corporation, NUI Utilities' and other NUI Corp subsidiary long term debt and lines of credit. ***2/21/03--Update--Received copies of the official "credit agreements" for NUI revolving lines of credit. None of the requested information regarding NUI Corporation's or NUI Utilities' long term debt was provided in the supplemental response. Still Partial. 1/2/03--Partial--Received NUI Corporation's and NUI Utilities' line of credit term sheets (for their revolvers). The question also asks for "term sheets" summarizing both Corp's and Utilities' existing long term debt. The response states that NUI has "definitive documentation" of its long term debt that is available upon request. We believe that in this case, our definition of "term sheets" is synonomous with NUI's definition of "definitive documentation." Therefore, this OC serves as our request for the "definitive documentation" related to NUI's long term debt.***	108
C	OC 122	11/26/2002	1/14/2003	**Affiliate / NUI Telecom & TIC / Affil Bill Support** Please refer the following questions to Alex Michals. 1. Reference NUI Telecom's invoice to NUI Corporation for the period 7/1/01 to 7/31/01. Please provide a full description of the "debit" in the amount of $7,744.78 near the bottom of page 4 of the invoice. Please indicate: a) what the charge is for (the nature of the service or facility provided), b) the monthly rate for the item and the number of months consolidated into the "debit" amount in the 7/01 invoice, c) the facilities-based carrier supplying the service, d) the geographic location of that the facility or service that was / is being supplied and e) provide support for the amount billed to NUI Telecom by the facilities-based carrier.. 2. Reference NUI Telecom's invoice to NUI Corporation for the period 12/1/01 to 12/31/01. Please provide a full description of the "BS 305 W70 3638" item in the amount of $26,309.85 near the bottom of page 4 of the invoice. Please indicate: a) what the charge is for (the nature of the service or facility provided), b) the monthly rate for the item and the number of months consolidated into the $26,409 amount in the 12/01 invoice, c) the facilities-based carrier supplying the service, d) the geographic location of the service or facility that was /is being supplied, and e) provide support for the amount billed to NUI Telecom by the facilities-based carrier.. ***1/29/03--Update/Complete (as of 1/14/03)--Although no bill support was provided, it appears that NUI can justify these charges. 1/14/03--Partial--Received answers to Parts 1 and 2, except for question E of both parts. No bill support was provided. Although no bill support was provided, it appears that NUI can justify these charges.***	49

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C/NR	OC 123	11/26/2002	1/28/2003	**Affiliate / Energy Brokers / Credit, Info Policies** Reference the interview with Jennifer Forno on Nov 22. Please provide: 1. When it becomes available in January, a copy of the credit policy being written for NUI Energy Brokers. 2. If available, written policies concerning the sharing of market and other properietary information gathered by Energy Brokers with affiliates. If no such written procedures exist, please so state. ***1/28/03--Update--Complete/Non-responsive--Received a response stating that the policy will be available for review at the Company's Bedminster location. The policy should be provided to Overland for review in our office. 12/6/02--Partial--Received an answer for Part 2. Part 1 can not be provided until January. OC-123 will be followed-up on in January.***	63
C	OC 124	11/27/2002	1/9/2003	**Allocations / Capital Allocation Policies** Please provide copies of any NUI internal capital allocation policies or procedures dealing with loans from the holding company to subsidiaries. ***1/9/03--Complete pending review--Received a response stating that NUI does not have any written capital alloacation policies.***	43
C	OC 125	11/27/2002	2/21/2003	**Fin Data / Rating Agency Correspondence** Please provide a copy of all written correspondence between Elizabethtown Gas Company, its parent, or its affiliates AND the following parties in 2001 and 2002: 1) Moody's 2) Standard & Poor's 3) Any other debt rating agency ***2/21/03--Complete pending review--Received written correspondence between NUI, ETG, and other affiliates and the agencies listed in 1 through 3 below.***	86
C	OC 126	12/9/2002	12/10/2002	**Utility / Third Party Gas Marketers** Separately, for fiscal years 2001 and 2002, please provide lists of third party suppliers who Elizabethtown considers to have actively marketed the gas commodity on a retail basis in Elizabethtown's service area. To the extent known, please indicate for each TPS whether they were actively marketing to residential customers, commercial customers, or both. ***12/10/02--Complete pending review--Received 2001 and 2002 lists of third party marketers.***	1

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 127	12/9/2002	1/15/2003	**Affiliate / Virginia Gas / SCADA Cost Allocations** To the extent NUI Utilities has begun allocating the cost of its SCADA system to Virginia Gas since the beginning of FY 2003, please provide the following: 1. An explanation of how SCADA costs are measured and collected. 2. A description of the types of cost being allocated 3. Cost allocation workpaper support showing the split of the cost between NUI Utilities and Virginia Gas. If NUI Utilities has not begun allocating SCADA costs to Virginia Gas, please so state. ***1/15/03--Complete pending review--Received a follow-up response addressing Parts 1 through 3. 1/8/03--Non-responsive--The response states that NUI "will be allocating gas control costs to Virginia Gas based on an assessment of the level of services provided starting in FY 2003." Based on the fact that NUI has already started the second quarter of fiscal year 2003, Overland believes that the allocation process should be underway, allowing for answers to be provided for questions 1, 2, and 3. If NUI 1) does not know how SCADA costs are measured and collected, 2) can not tell what types of costs are allocated, and 3) does not have any workpapers, please so state.***	37
C	OC 128	12/9/2002	2/21/2003	**Fin Data / Rating Agency Reports** Please provide the following rating agency information: A) Moody's rating action dated June 6, 2002--"Moody's places NUI Utilities, Inc.'s Debt (A3 Sr. Uns.) on review for possible downgrade. B) Moody's rating action dated July 10, 2001--" Moody's upgrades NUI Utilities (Sr. Uns. To A3), assigns Baa1 rating to NUI Corp's Sr. Uns. Debt. C) Any Standard and Poor's information (for example, any new reports) not provided in OC-72. ***2/21/03--Complete--Received the requested rating agency information.***	74

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 129	12/9/2002	1/9/2003	**Affiliate / Shared Information Systems** Please provide the following information: A) A listing/description of any information systems shared by more than one affiliate. The list should identify which affiliates share each of the systems. B) A description of the time period(s) over which the information systems listed in Part A were developed (or purchased from third parties if not developed internally). ***1/9/03--Complete pending review--Received a listing of shared information systems. SCADA system not listed as being a shared information system.***	31
C	OC 130	12/9/2002	1/7/2003	**NUI / Software Capitalization Policy** Please provide the following information: A) A written description of the Company's capitalization policy for the costs of developing software for internal use. B) An explanation of whether the current policy described in Part A changed as a result of the issuance of SOP 98-1--"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." C) If the current policy described in Part A changed because of the issuance of SOP 98-1, provide a written description of the Company's previous capitalization policy for the costs of developing software for internal use. ***1/7/03--Complete pending review--Received answers to Parts A, B, and C. NUI's capitalization policy (related to internal use software) was provided.***	29
C	OC 131	12/9/2002	12/24/2002	**Allocations / Facilities Costs** In response to the corrected notes provided by Carol Sliker and Barbara Vitale from our interview dated October 24, 2002, please provide the following information: A) The name or names of the individual(s) in the Real Estate Department who are responsible for space usage. B) The CAD drawings maintained by GVA Williams noting each tenants' space. C) The documentation maintained to indicate the space usage changes between years. Specifically, provide the documentation showing the changes between 2000 to 2001 and 2001 to 2002. ***12/24/02--Complete--Received responses to Parts A, B, and C.***	15

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 132	12/20/2002	1/16/2003	**Fin Data / Enron Exposure** Related to the journal voucher support provided to Overland Consulting by Patrick Migliaccio in response to OC-102, please provide the following information related to the Enron transactions described below: A) Please provide a full description of the transactions and the "unwinding" of the transactions documented in the following journal ID's: 1) ETGCO 2002001314 2) NUIEB 2002001313 3) NUIEN 2002001316 B) Please provide a full description of the transactions and the "unwinding" of the transactions documented on the spreadsheet called "Enron manual invoices related to liquidated transactions." C) Please explain the nature of/provide a description of the $49,270,977 amount due to Elizabethtown Gas from NUIEB that appears on NUIEB journal ID IU20020020. What is included in this amount? D) Please indicate what, if any, exposure NUI or its affiliates still have with Enron. Do any long-term positions still exist or have all positions been unwound? If NUI or its affiliates have exposure to Enron, please describe in detail the nature of those transactions. E) A memo from Patrick Migliaccio to "File" refers to some form of documentation called Economic Analysis of the Enron Liquidation, prepared by Jennifer Forno. Please provide this Enron liquidation analysis. ***1/16/03--Complete pending review--Received responses to all Parts.***	27

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 133	12/20/2002	2/20/2003	**Fin Data / Subsidiary to Parent Dividends** Please provide the following: 1. Dividends paid by Elizabethtown and other NUI utility subsidiaries (eg City Gas Florida, Elkton, etc.) to either NUI Utilities or to NUI Corp (indicate which), for FYs 2000, 2001 and 2002. For each payment please indicate: Holding company entity the dividend was paid to (NUI or NUI Utilities) Date Decared Date Paid Amount Paid 2. Divdend payments by NUI Utilities to NUI Corp for fiscal years 2000, 2001 and 2002. For each payment please indicate: Date Decared Date Paid Amount Paid 3. If dividends were paid to NUI Corp subsidiaries other than the regulated utilities or the utility holding company (NUI Utilities), please provide the following information: Subsidiary declaring and paying dividends Date Decared Date Paid Amount Paid If non-utility subsidiaries did not remit dividends during these fiscal years, please so indicate. 4. If NUI, NUI Utilities or Elizabethtown Gas has any formal policies regarding the payment of dividends to parents, please provide a copy of the policy or policies. ***2/20/03--Complete pending review--Received responses to Parts 1 through 4.***	62

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 134	12/20/2002	1/9/2003	**Fin Data / Off-Balance Sheet Items** Please provide a list of off-balance sheet (unconsolidated) assets, interests, liabilities or relationships, including assets, interests, or liabilities held by or business or financial activities conducted by special purpose entities, joint ventures, limited liability corporations (LLCs) or partnerships (LLPs) for which NUI or any of its subsidiaries have financial exposure or potential financial exposure. (Liabilities associated with the Liberty Hall Joint Venture lease discussed in OC-22 may be excluded from the response to this request). 1. If off-balance sheet assets, interests, liabilities or financial or business activities conducted by off-balance sheet entities exist, please provide a copy of the primary agreement(s) describing the relationship between NUI and the entities, including capitalization provided by NUI and others. 2. If no such off-balance assets, interests or liabilities or business or financial activities conducted by off-balance sheet entities exist for NUI or any of its subsidiaries, please so indicate. ***1/9/03--Complete pending review--Received response stating that no off-balance sheet assets, liabilities, or relationships exist.***	20
C	OC 135	12/20/2002	2/6/2003	**Board of Directors Minutes / Written Materials** In conjunction with the Board of Directors meeting minutes to be made available in response to OC-97, please make available briefing books or other written materials provided to Board members prior to or in conjunction with the meetings. ***2/6/03--Complete pending review--Received response stating that this data is available for review in Bedminster as with the Board of Directors meeting minutes.***	48
C	OC 136	12/20/2002	1/14/2003	**Fin Data / Trial balances** As a supplement to OC-20, please provide the full 2002 fiscal year trial balances through September in electronic format. (Note: we currently have 2002 data through July.) ***1/14/03--Complete pending review--Received updated trial balances for the complete fiscal year 2002.***	25
C	OC 137	1/3/2002	2/6/2003	**Appliance Services / Tariff** Please provide a copy of the Elizabethtown tariff pages covering appliance service terms and rates. ***2/6/03--Complete--Received a response with a link to the NUI web site and a listing of the appliacable pages to print for a copy of the appliance business' tariff pages.***	399

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 138	1/3/2003	2/6/2003	**Affiliate / NUI Telecom & TIC / Bill Verification** Please refer to the edited interview notes returned by Alex Michals, interview note item number 4. 1. Please provide an electronic (or, if unavailable, paper) copy of the "inventory of telecommunications services by location." at whatever development stage it is currently in. 2. Please provide a full narrative description of the procedures Mr. Michals is using in the process of "matching charges with services.", including the internal and external documents involved in the verification. Please indicate the month that this was begun and provide a sample of the documents used in the verification. ***2/6/03--Complete pending review--Received a description of the process used to match charges with services. 1/14/03--Partial--Received electronic copies of the "inventory of telecommunications services by location." No response was provided for Part 2.***	34
C	OC 139	1/8/2003	1/28/2003	**Appliance Services / Followup / Marketing** In the 2002 NUI New Jersey Appliance Services marketing plan, under strategy #5 "Become installing contractor of choice for NUI utility conversions" there is an action item stated as "coordinate with NUI Utility Marketing / Sales." Regarding this item: 1. What does (or did) this "coordination" consist of and who in the "NUI Utility Marketing / Sales" function is involved? 2. If there are written marketing materials associated with becoming "installation of choice for NUI utility conversions" during the past three years, please provide them. 2. Does the NUI Utility Marketing / Sales function do anything to promote NUI's Appliance Service business unit's appliance installations other than hand out a list of qualified contractors that includes NUI Appliance Services? If so, please fully describe what is done. If not, please describe the procedures Elizabethtown Gas' utility marketing function has implemented to ensure that NUI's Appliance Services business unit is treated no differently than other contractors regarding appliance installation referrals. 3. Please provide a copy of any materials provided by Elizabethtown Gas to regulated utility customers in the past two years regarding contractor appliance installations. ***1/28/03--Complete pending review--Received responses to Parts 1 through 4.***	20

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 140	1/8/2003	1/15/2003	**Appliance Services / Followup / Utility Svcs** 2001 and 2002 through July New Jersey Appliance Service income statements show $1.3 million and $279,000, respectively, in "utility services revenue". 1. Please describe the nature of the revenue (e.g. "This is revenue from appliance services technician who performed responder services that were attributable to the utility instead of appliance services, such as responses to gas leaks). 2. Please indicate the hourly rate at which the utility was billed for these services by the NJ Appliance Service business unit in 2001 and 2002. If the rate varied based on the person doing the work, indicate the rates applicable to each position performing the services. (Suggested Recipient: Tom Rumely) ***1/15/03--Complete pending review--Received responses to Parts 1 and 2.***	7
C	OC 141	1/8/2003	1/14/2003	**Appliance Services / Followup / Marketing** This question concerns Mylene Arza, who assisted with marketing for NUI's New Jersey Appliance Service unit during the audit period. 1. Is Ms. Arza located in Florida? If not, what is her location? 2. Who does Ms. Arza report to? Does Tom Kuster exercise line authority over her department? 3. Are Ms. Arza's marketing responsibilities limited to New Jersey appliance services, to all NUI appliance services, or to appliance as well as other NUI products and services. 4. If Ms. Arza's marketing responsibilities extend beyond appliance services, do they include regulated utility services, and specifically, Elizabethtown Gas? 5. What are the primary marketing duties Ms. Arza has with New Jersey Appliance Services? 6. If she has marketing responsibilities associated with Elizabethtown Gas company's regulated utility services, what are they? 7. If Ms. Arza has completed a job description, please provide a copy. 8. Does Ms. Arza use a timesheet to separate the time she spends on New Jersey Appliance Services marketing from her other duties? If so, please provide a copy of the last timesheet she filed in fiscal year 2002. (Suggested Recipient: Mylene Arza) ***1/14/03--Complete pending review--Received reponses to the questions posed in the request.***	6

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 142	1/8/2003	1/15/2003	**Appliance Services / Followup / Leased Space** In OC-44, we asked for a copy of the lease agreement between NUI and New Jersey Appliance Services for the Rahway facility. The answer was "The facility is owned by Elizabethtown Gas." We are assuming that if a lease agreement between the appliance services business unit and Elizabethtown Gas existed, it would have been provided with the response. If there is such an agreement between NJ Appliance and Elizabethtown for Rahway, please provide it. (Suggested recipient: Michele Mustillo) ***1/15/03--Complete pending review--Received a response stating that there is no lease agreement between the appliance business and Elizabethtown Gas.***	7
P	OC 143	1/8/2003		**Appliance Services / Followup / Leased Space** In OC-75 we asked for an explanation of how the costs of the Rahway facility were charged to the New Jersey and Florida appliance businesses. The response did not answer the question, instead it stated "For FY 03, all the costs of the Rahway facility reside in the NJ Appliance Business." Regarding this: a. Please indicate (separately for each year) what lease amounts the NJ Appliance Business was charged for by Elizabethtown Gas in 2001 and 2002 for 1) the Rahway facility and 2) the facility used by NJ Appliance Services to serve the Northwest service territory (the New Village facility?) and any other facility that Appliance Services business unit employees occupied.. b. Please indicate the types and associated amounts of cost currently being charged in FY 2003 (on an annualized basis), as referred to in the answer to OC-75, for both the Rahway facility and the Northwest facility or facilities and indicate what line item on the NJ Appliance Service business unit's financial statements reflect this cost. ***1/15/03--Partial--Received a response for Part 1 that is complete pending further review. The response to Part 2 is partial. It does not address the Northwest facility or list the line items that costs hit the Appliance Business' financial statements (or state that no costs relate to the Appliance Business.***	65

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 144	1/8/2003	1/15/2003	**Appliance Services / Followup / Customer Data** 1. Please fully describe the system controls in place, if any, to prevent the Appliance Service business unit's customer consultants (customer service reps) in Rahway from accessing associated utility account information when they access a customer's appliance service customer record. 2. Please fully describe customer service system controls in place, if any, to prevent Rahway Appliance Service customer service representatives from accessing utility customer accounts for which no appliance services are currently provided. [Note: We recognize that as Division of the utility, NUI is not required to have these controls under the Affiliate Standards. We would like to know if they exist.] (Suggested recipients: Tom Rumely and Gerald Olson) ***1/15/03--Complete pending review--Received responses to the questions posed in the request.***	7
C	OC 145	1/8/2003	1/15/2003	**Appliance Services / Followup / Bill Inserts** Please provide answers and/or data to the following questions/requests: 1) Does Elizabethtown Gas charge the New Jersey Appliance Business to place "appliance business related bill inserts" in utility bills? 2) If the answer to 1) above is yes, please tell how much was charged in both 2001 and 2002 on a per bill basis and in total. 3) What account number would we find these charges on the Appliance Business' trial balances? ***1/15/03--Complete pending review--Received responses to Parts 1 through 3.***	7
C	OC 146	1/21/2003	2/7/2003	**Allocations / Facilities Costs / Followup** Please provide a copy of the original 1987 Master Lease Agreements between Liberty Hall Joint Venture and tenants of the Union building (1085 Morris). ***2/7/03--Complete--Received a copy of the 1987 Master Lease Agreement between Liberty Hall Joint Venture and tenants of the Union buildling.***	17

Resp.	Dr No.	Date Sent	Date Received	Description	Elapsed Days
C	OC 147	1/21/2003	2/10/2003	**Allocations / Facilities Costs / Followup** 1. Please explain why the Erisco sublease agreement commencing August 1, 1998 for facilities at 1085 Morris was entered into by Elizabethtown Gas instead of NUI or Liberty Hall. 2. Did Elizabethtown Gas lease the Union property from Liberty Hall in 1998? Did it lease the whole building? If so, please provide a copy of the lease agreement. 3. Given that Elizabethtown Gas was subleasing to Erisco after July, 1998, please explain how Liberty Hall could assign a lease with Erisco to NUI on April 28, 2000 (See letter dated April 28,2000 addressed to Erisco, 1085 Morris, signed by Brant Cali, assigning the Liberty Hall lease to NUI). Please fully explain how Erisco could both have a lease with Liberty Hall and a sublease with Elizabethtown for the same space. If it was not for the same space please fully explain. ***2/10/03--Complete--Received responses to Parts 1 through 3.***	20
C	OC 148	1/21/2003	1/27/2003	**Fin Data / GL Transactions** Based on analysis of the GL activity provided in response to OC-43 and/or OC-96, please provide answers to the following: 1) For ETG account number 420000, Journal 2002004055, please explain the nature of the reclassification described in the following manner "To reclass Exxon Mobil revenue to ETG". The amount is $385,573.21. Why would this revenue be reclassed to ETG? 2) Related to 1) above, please explain the nature ETG account number 420000, Journal ERI0010602. 3) For ETG account number 420000, Journal SIU2002037, please explain the nature of the entry "To record OSS Actuals". What does OSS stand for/What are OSS actuals? ***1/27/03--Complete pending review--Received responses to Part 1 through 3.***	6

Average Elapsed Days: 41